MARKET RESPONSE TO ANNUAL REPORTS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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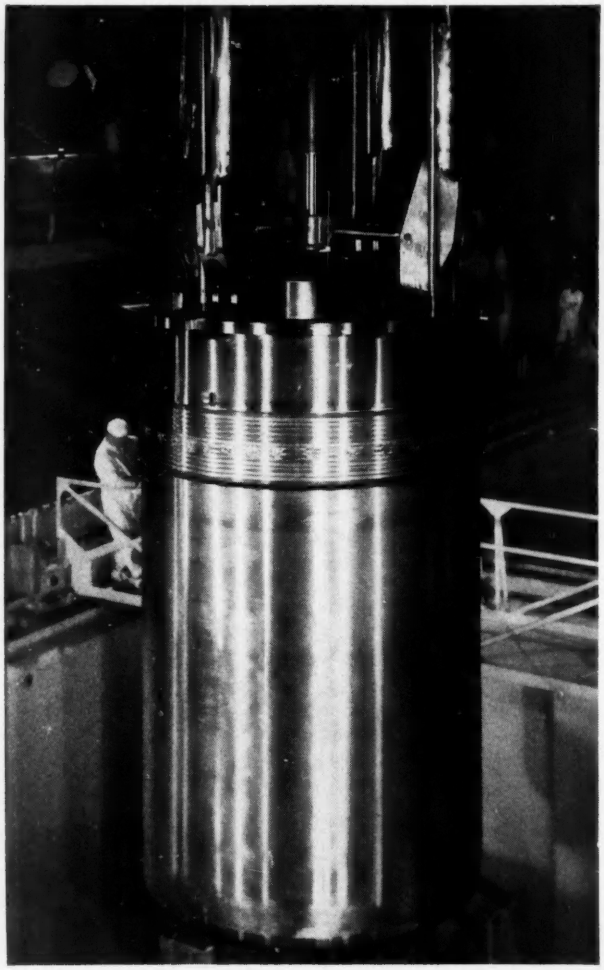

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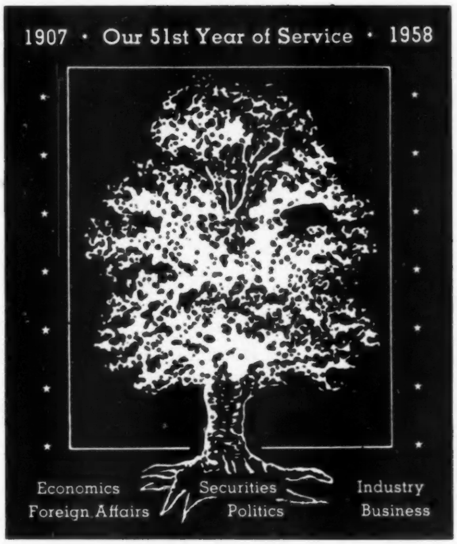
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*



The Trend of Events

CAN WE HOPE? . . . If the reduction in margin requirements from 70% to 50% was an attempt to stimulate the stock market for its psychological effect on security buying, it fell far short of its purpose, because investors who stayed out of the market did so because of the uncertain outlook for various companies, and not because margins were on a 70% level.

Nor did the reduction to 50% bring about any change in minimum maintenance requirements for margin accounts—since so many investors suffered severe losses in 1957 and are now being carried by their brokers near the minimum maintenance levels. Thus the reduction in margins could give them no additional buying power.

More realistic steps would have required an act of Congress, and would call for a rescinding of the tax law which stipulates a six months retention before a security buyer can be entitled to a minimum tax status under the Capital Gains Law. The repeal of this provision is a must if we are at this time to stimulate that necessary healthy speculative market interest in securities that is badly needed to encourage more constructive thinking about the future.

Of course the outright repeal of the Capital Gains Tax itself is one of the most important contributions the government could make to a sound securities market. This law has become an influential market factor, greatly distorting the perspective of many an investor. When common sense and research suggests that a stock be sold, the payment of a 25% tax on profit-taking has become a mental block, on the reasoning that if a stock should lose 25% of its gain the holder would be no worse off—and, on top of that, would not have been obliged to pay a broker's commission for selling and an additional commission when buying a replacement.

This lack of willingness to sell has led to the very thin markets which have prevailed for a very long time—and is in a large measure responsible for the exaggerated prices at which many securities have sold in recent years—and is also why a number of representative stocks are now selling from 30 to 60 points below their highs. This situation is further aggravated by the uncertainties of the moment in the earnings-dividend outlook for the companies—the deflationary trend now in the making—and the prices at which these issues would sell in a decline that might go to extremes under shock news, either domestic or foreign.

Repeal of the Capital Gains Tax, or, at a minimum, the six months provision, would have an electric effect on the securities market and would broaden the capital market too. Altogether it would tend to eliminate uncertainty, increase confidence and stimulate business activity into new ventures.

An active rising market would produce the psychological fillip that business and investment have traditionally looked to from the Stock Market. Even a steady market would be interpreted by businessmen, investors and the general public as a sign that there is a great deal of sta-

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

Business, Financial *and* **Investment** Counsellors::1907—*"Our 51st Year of Service"*—1958

bility underlying our economy, and lift the fear psychology.

It is clear that the cancellation of the six months' retention provision is an essential step for producing an active market in securities at this time when it is difficult to see that far ahead. It would be an important consideration for professional investors and traders who make the market (whether the Capital Gains Tax itself is eliminated or not).

Elimination of the six months' provision would benefit everybody, and would eliminate the emotional thinking which is now interfering with the reasonable and orderly handling of our affairs.

But will Congress take such a realistic step in an election year—or will they let us limp along with expedients that won't accomplish anything? Yet we have reason for hope—since there are a number of strong men in Congress today dedicated to the well-being of the country as a whole. Men who might exercise the courage, stamina—and that greater courage required to make their decisions on realities rather than politics.

Actually it would be in their best interests to do so, regardless of the pressures put upon them, for these men can be the leaders of tomorrow, if they act with firm resolve. Vacillation weakens a man's purpose and dilutes his inner strength—and when that is gone there is nothing left but an empty shell and the shallow ring of political oratory which everybody recognizes for what it is.

Gangster — (Hoodlum)

WATCH YOUR LANGUAGE! . . . If Hoffa's victory is any indication of what the Government is going to do about union leaders who have been found guilty of betraying the trust of the members, the decision in favor of Hoffa serves notice that labor legislation is going to fall by the wayside in this election year.

It is maddening to contemplate, and makes it easy to understand the gall of Mr. Reuther in making a play for a share in the profits of American industry. The turn of events in the Hoffa case clearly tells Mr. Reuther he has nothing to fear and can go on and play his "cat and mouse" game for high stakes without interference.

How much longer can we sit on the side-lines and permit racketeers to wield such great power in our country—to force their will on the American worker—so that in order to hold a job he has to become a member of their unions and submit to their dictatorship in a supposedly free country.

I cannot believe that the matter will rest there, for the indignation is so great that demands may force the action called for in this disgraceful situation, which has encouraged the spread of racketeering to various areas of our national life.

The insecurity in our country today can be compared to the Dark Ages of the 9th through the 13th century, when highwaymen ruled the byways of Europe—when no man or woman was safe—and when the people of that time were forced to pay tribute to organized gangsters.

It is clear that the situation has become serious—that appeasement will only make matters worse—that unless we put an end to this brazen banditry this country is surely headed for a "gangster dictatorship". YES, And the American's "YAP" about Communism

RAISING THE DEBT CEILING . . . In the light of the deflationary trends that have set in, we believe that the proposal to raise the debt ceiling $5 billion will not be endangering our financial position or the value of the dollar.

And in the coming issue we will have a 2-page editorial going into the matter simply and clearly, so that our subscribers, both as businessmen and investors, will receive a practical evaluation of the impact of this move.

SWINDLE—SWINDLE—SWINDLE! . . . The other night we watched a television broadcast—and it is coming to a pretty pass when one full hour needs to be devoted to warning the public about a whole series of every-day swindles.

On top of all these petty swindles, the press of the following day ran a front page story of a real-estate fraud which has taken $5,000,000 away from people who can ill-afford to lose their savings. Aware that the old type "bucketeers" were now operating in real estate, we ran a warning article in our last issue calling attention to the doubtful nature of the new type of real estate "investment" which was being offered to the public to net 8% to 10%—and now we learn that the real estate promoters of yesterday's fraudulent operations in New York were offering 12% return to the naive prospect for get-rich-quick securities.

Again we want to emphasize the need for avoiding corporations where financial statements are not available and where the protection of the S.E.C. restriction is absent.

In most of these real estate organizations selling stock today it is well to remember that while the management will shift the investment risk to the buyers of their stocks, they will retain control of the properties themselves.

THE TRAGEDY OF ROBERT YOUNG . . . It seems out of character for a man with his fighting spirit to have taken his own life. And yet the pressures on our executives today are almost unbearable and even unbalancing.

To meet the demands of this new age and to deal with the overwhelming problems in which even international interests are involved, calls for deep thinking and an atmosphere in which intense concentration makes constructive planning possible. In itself the task is Herculean, if captains-of-industry are to conduct their affairs properly at this crucial time—and keep their companies in a sound position.

But when they are subject to harassments from labor—from government—from politics, it is just more than a human being can stand physically and mentally, and accounts for the losses we have suffered through heart failure and other causes which have taken men we could ill-afford to lose because of their background, vast experience, and their sense of responsibility in carrying on their jobs.

Mr. Robert Young was a genius, a character and an individual who did things in his own way. But he was a builder and we will feel his loss keenly—we are heart-sick that he had to go that way, which could only have been caused by the severest kind of mental pressure, for he was a man of great courage. In the final analysis, we can be sure that he sacrificed his own interests to that of the companies with which he was involved.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907—*"Over Fifty-one Years of Service"*—1958

As I See It!

By ROBERT GUISE

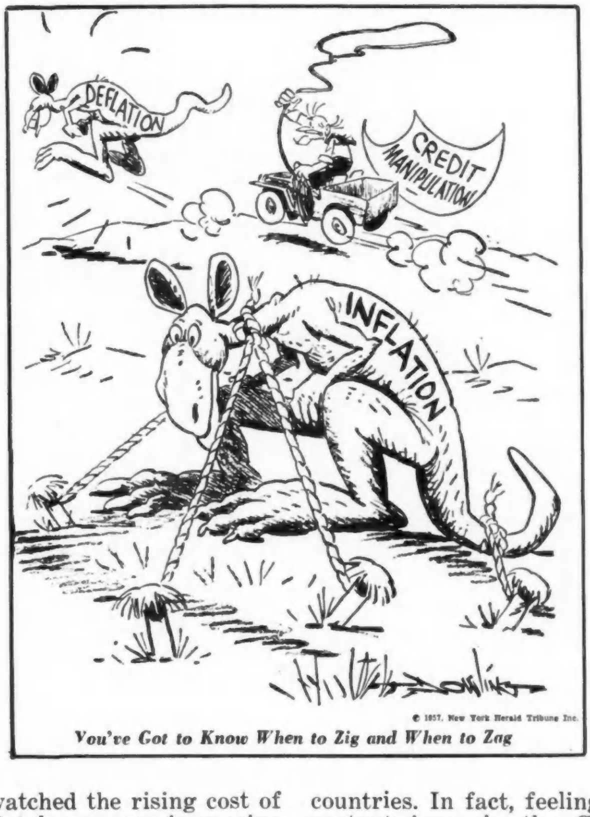
ENCOURAGING AMERICAN MONEY TO FLOW ABROAD

In the past several weeks the Federal Reserve Board first reduced the discount rate from $3\frac{1}{2}$ to 3 percent, and then in quick succession lowered margin requirements and shaved another $\frac{1}{4}$ percent from the discount rate. Yet despite these supposed shots in the arm for the economy, there is no sign that businessmen are beating at the doors of banks to take advantage of the more favorable rates.

In fact, the latest statement of the Board indicates that money is actually runing back into the banking system at a prodigious rate—and if the process continues the result will be additional pressure on interest rates and further cuts in the discount rate.

Thus the Fed may find that instead of controlling the money market, its actions are actually lagging behind prevailing conditions and that its policies are being dictated by borrowers, rather than the other way around.

The new trend in interest rates is welcome news, however, to Treasury officials faced with the enormous task of "rolling over" $75 billion in federal debt in 1958. They will find the banks much more willing to take on government bonds now that the bond market has stabilized, when they see the borrowers they counted on are not as eager as they were just a short time ago.



You've Got to Know When to Zig and When to Zag

The lower cost of government financing will also be welcomed by the weary taxpayer who has watched the rising cost of servicing the national debt take an ever-increasing share of his tax dollar.

But what is disturbing about the present situation is that while it has done little to stimulate American business, it has given foreign governments and corporations a handy tapline into America's financial resources. For many of them are finding that although they cannot receive the same low rates afforded to our prime domestic risks, they can do their financing in this country much more cheaply than at home. A glance shows that prime rates around the world are ranging from 8 per cent in the better situated countries to 35 per cent in backward areas—and helps to understand why the various countries have been rushing into the American market for their capital needs. And what is more, foreign companies are doing the same and selling both equities and bonds at a lower cost than they would have to pay anywhere else in the world.

In the case of Royal Dutch, which is presently offering $228 million in stock to the American public, the current move represents a sharp turn-around from their usual policy of doing their financing only in Europe, and is a natural follow-up to their listing on the New York Stock Exchange. It is significant that until recently, American shareholders of Royal Dutch securities were not entitled to exercise their preemptive rights, but, instead, were forced to sell their rights at prices predetermined by the corporation. It is interesting that this is a practice among a large number of foreign companies, who allow Americans to buy their securities in the open market but our citizens are unable to subscribe for new stock offerings. This is true of Bowater Paper, the Hawker-Siddeley Group and others.

The curious aspect of this new flood of foreign financing is that it comes hard on the heels of the complaint in many parts of the world that American business and investors already have too large a stake in their countries. In fact, feeling on this score was an important issue in the Canadian elections, despite which an important Canadian utility, Consolidated Electric of Montreal, is financing in our markets. It seems the Canadians are not ready to accept the low rate of return offered on these issues.

However, the inconsistency of foreign pique is not as disturbing to us as the drain their operations place on our capital resources. Capital funds sent overseas are not available to American business, and, despite the temporary slowdown of capital requirements at home, our long term needs are enormous. But it is understandable (*Please turn to page* 604)

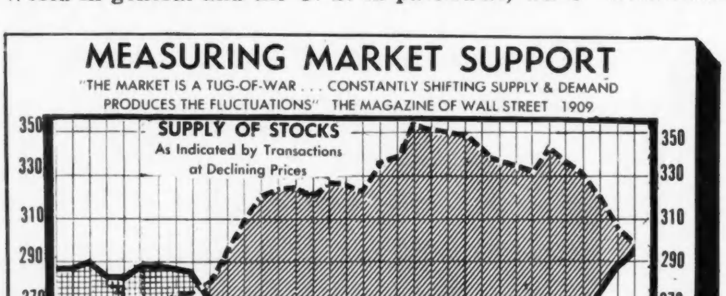
The Market Response To Annual Reports

The market is viewing the deepening business recession with considerable equanimity; but many individual stocks will be tested by poor earnings reports, some by dividend cuts. We do not see a near-term basis for anything better than selective, trading-range fluctuation. A conservative, discriminating investment policy continues in order at this stage.

By A. T. MILLER

Both over the last fortnight and since the start of the year, the stock market's performance has been better than the business-financial news. The latter is dominated on the one hand by reports of deflation in production, new orders, backlogs, employment, income, etc., and on the other by further mild credit-easing moves, hopeful prophesies by the Administration, forecasts of increased defense spending and talk about tax cuts or other pump-priming measures if the recession threatens to become serious. All of this against the sobering backdrop of intensified cold war by Russian Communism against the Free World in general and the U. S. in particular, while we are repeatedly told that we lag in military power, with our survival at stake.

Yes, the market seems surprisingly cheerful at the moment. After several tries and failures within recent weeks, the daily industrial average managed to push above its late-November rally high of 449.87 for closing prices by a sizable fraction in last week's final session, ending the week at 450.66. However, intra-day highs in the 452-453 area were reached both November 29 and January 16, the latter in abortive response to news of the cut in margin requirements from 70% to 50%; trading volume in both instances was heavier than last Friday's, when the spurt may have stemmed in some measure from short covering; and the 452-453 supply level has yet to be definitely penetrated at this writing.

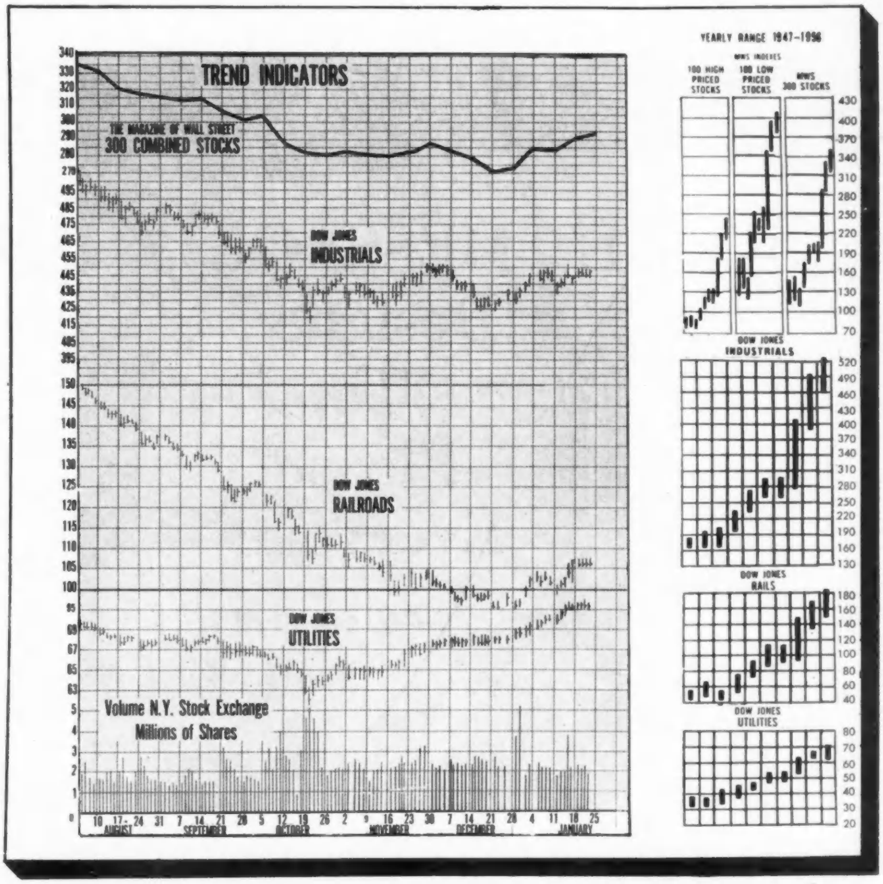


Utility and Rail Performance

Soundly founded on earnings-dividend prospects, plus easing money rates, the uptrend in utilities, as well as in better-grade industrial income stocks, carried further over the past fortnight. The utility average has now made up over 78% of the entire decline from the May, 1957, bull-market top to last October's low. The rail average rallied slightly further to a closing level of 107.63, but here again there has not yet been a clear-cut upside penetration on the basis of intra-day highs; and, even if it came, it would not signify more than some extension of a trading-range rally. The recovery to date is less than 14% of the prior 1956-1957 decline. In the case of the industrial average, the comparable figure is a little over 30%. The average is less than 8% above its October low. Since about a 16% advance – unwarranted by presently foreseeable trends of business activity, corporate earnings and dividends – would take it back to untenable over-valuation around the 1956-1957 triple-top level of 521, it is apparent that prospects for stretching the rally phase are questionable.

As noted here before, completion in late December of an extraordinarily large volume of tax selling has facili-

tated technical rallies in many stocks since the turn of the year, and has enabled others to level out. As a result of this and of more significant strength in typical investment-grade income equities, the performance "box score", in terms of individual issues, is the best in many months; and it improved further since mid-January. Last week 994 stocks gained some ground, only 280 were down on the week; while 93 issues attained new 1957-1958 highs, only 9 sagged to new lows. In the preceding week, ended January 18, 1,049 issues advanced, 240 declined, 53 attained new highs, and 20 feel to new lows.



When market action is better than the news, that is traditionally interpreted as promising by the "technicians", a term that sounds better than "trend-guessers", without meaning any more. Admittedly, it could be promising in the sense of a moderate extension of rallying tendencies. If taken to imply that the recession, and its consequences for earnings and dividends, have been fully discounted, that could be wishful thinking.

All that can honestly be said is that at the moment the investment-speculative consensus, as reflected by the market, is more hopeful than bearish. But it has to be added that the consensus at any given time can be wrong, that it often has been, and that it can change from week-to-week. The consensus was, of course, bullish at the August, 1956, high. What followed was about a 66-point fall by the industrial average into February, 1957, during which the news was better than the market. The consensus was bearish around the February, 1957, low, followed by about a 66-point rise in the average, throughout which the market was better than the news. Most investors felt quite cheerful around the best market levels of last July. We need not dwell on the pain inflicted by the subsequent fall of roughly 101 points by the average.

What can the investor tie to, bearing in mind that the best bet always has been to buy low and sell high? Selected income stocks offer fair yields, even though a good deal less than they did a few months ago, and potentials for moderate appreciation. Probably some speculative stocks, with little or no present allure, are so far down that the risk now is small to moderate, the possibilities for profit large in the next bull market—which is to say at X time, maybe one to four years hence. But in the case of reasonably prominent growth stocks and cyclical-type stocks, in which there is the greatest investment interest, you cannot buy low now. They are as yet far from being really depressed, based on the first half outlook.

The Business Outlook

The Reserve Board's production index fell pretty sharply in December, extending the decline from the late-1956 peak to about 7.5%. It undoubtedly has fallen further in January and will skid more in February. In unemployment the trend is sharply upward, and will go further at least through the winter season; while in personal income and spending for goods it is mildly downward. By spring the recession could have equalled or exceeded those of 1948-1949 or 1953-1954. Its final scope remains enigmatic, the basis for the widely-predicted second-half upturn somewhat nebulous. As for easy money, Federal spending, "pump-priming", etc., remember the New Deal and the huge total of unemployment which remained a crucial problem until World War II solved it. There is no adequate substitute for rising consumer and busines s outlays, both now trending down. Nearly everywhere, surplus is the rule in materials and goods. There is no fast magic in easier credit. Organized labor is still living in a world of economic fantasy. Corporate earnings may fall more than in 1953-1954 when relief from EPT was a big factor. World War III? No solution to anything, since it would be totally bearish and calamitous. Our policy is unchanged. — Monday, January 27.

A BUDGET MESSAGE Designed To Please Everyone

—How it Will Really Work Out

- ***A realistic appraisal of how the money will be spent for defense — for civilian projects***
- ***The political realities bound to be considered***
- ***How shift in foreign policy will affect foreign aid***
- ***Why budget cannot be balanced — and likely deficit***
- ***Decline in government revenue — increased taxation***
- ***Effect of financial strain on dollar countries abroad***

By **JAMES J. BUTLER**

★ President Eisenhower's vision of a $73.9 billion budget which would leave a half-billion dollar surplus after tax collections of $74.. billion is based upon so many improbables as to appear unrealistic.

It contemplates that the business decline will promptly be reversed and tax collections reach new high marks; it foresees Congress postponing or abandoning pet projects of local interest and economizing on normal "housekeeping" expenditures; and it looks to upward postal rate revision going far beyond the goals set, and rejected, in every recent year. For example, it assumes Congress will boost non-local letter minimum rate from 3 cents to 5 cents. That overlooks the fact that legislation foundered in the last session on a plan to up the rate to 4 cents.

If the postal rate raise bill fails of enactment the computed surplus for Fiscal 1959 is wiped out: that action, alone, counts for new receipts of $700 million in the President's reckoning, and is $200 million over the pictured surplus of $500 million.

The balance between Treasury income and outgo is, at best, a guess. A bad guess, it will prove this year. Last October, the White House announced the government would have a $1.5 billion surplus for Fiscal 1958–the current year. That will be about $2 billion off; there is likely to be a deficit of at least $500 million dollars. Tax collections will be about $1.5 billion below October outlook. Add that to spending which will be accelerated in the missile program, for which Congress is about to grant a

supplementary appropriation, and deficit operation looms.

Even before the appropriations committees begin their work it seemed obvious that a balanced budget, and surplus, can be achieved only by rejecting some of the President's own recommendations and matching spending with income. For example, in the category of foreign aid. The President has proposed a budget of $3,940 millions for these projects—$2,665 millions for military assistance and defense support, and $1,275 million for economic aid.

In order to have elbow room, the President, in the same Message which holds out the prospect of a balanced budget and a surplus at year's end, tells Congress the public debt ceiling may have to be raised if the anticipated revenue does not materialize. On that point, Ike commented:

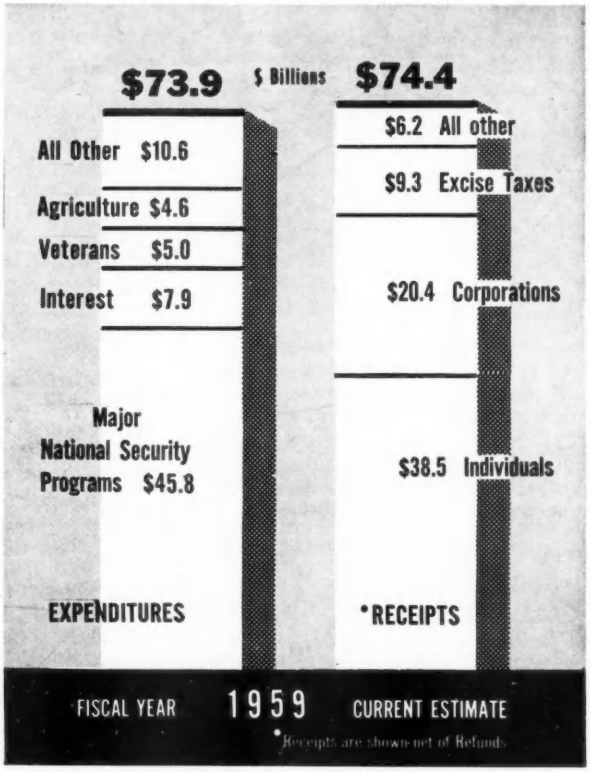
"A debt limitation serves as a proper reminder of the importance of operating economically in discharging the responsibilities placed by the Constitution and the statutes on the executive branch. However, the present limit of $275 billion is too restrictive in view of rising defense expenditures and the need for more flexibility to permit efficient and economical debt management.

"Therefore, I will recommend that the present limit be revised upward temporarily through the fiscal year 1959. There should be an adequate margin to take care of any unexpected developments and to give the Treasury some much-needed flexibility in conducting its financing during this coming period." This actually indicates the uncertainty in the President's mind as to the outlook for government revenue as compared to the demands on the Treasury. The House obviously shared these views, and promptly voted a $5 billion increase in the ceiling.

The President's State of the Union Message had been far from unequivocal on the economic outlook. "There are solid grounds for confidence that economic growth will be resumed without an extended interruption," he prefaced. Then he said: "The Federal government, constantly alert to signs of weakening in any part of our economy, always stands ready, with its full power, to take any appropriate further action to promote renewed business expansion."

And the regimen of self-discipline the President laid down for Congress as the essential basis of a balanced budget and surplus, without stinting military needs or economic aid, hardly matches the mood of the Senate and House in an election year: "This purpose will require the cooperation of Congress in making careful analysis of estimates presented, reducing expenditure on less essential military programs and installations, postponing some new civilian programs, transferring some to the states, and curtailing or eliminating others." An illustration of the attitude of Congress was a protest against the cutting of any agricultural subsidies proposed in his Farm Program Message.

The FEDERAL BUDGET



Congress is well along toward launching new civilian programs and instituting military projects. It is not likely to turn back. A $1.2 billion measure was reported from the house public works committee before adjournment last August. It is on the calendar and eligible to be called up for vote. Speaker Rayburn has made it known that he will oppose cutbacks or scrapping of projects affecting water power and resources, irrigation and similar programs. The Senate public works committee is considered more generous with operations of this sort than its companion committee.

Hope vs Realities

In seeking to avoid both deficits and tax increases, the President is walking a financial tight rope. Since 1955, Federal expenditures have followed an upward spiral. That has been a natural concomitant of a growing country, expanding public services—and inflation. Congress last year voted a budget of $67.7 billions of spending authority in the face of certainty that the government couldn't operate within that figure, even if there were no Sputniks. One year earlier, the lawmakers voted $70.1 billion.

The oncoming budget was looked to as the document that would pack the wallop to catch up with Russia's surface showing of superiority in weaponry, and beat the Soviet on the basis of the true standing. It also had been pictured as the document with the substance to help meet the economic requirements of old friends, and gain new ones in Asia, Africa and South America. But spending which rises from $72.8 billion (which is the expected total this year after "supplementals" and "deficiencies" are included), to $73.9 billion, accounts for a boost of only 1½ per cent. That's less than the normal annual increase in expenses and it takes no account of inflationary trends during the current year.

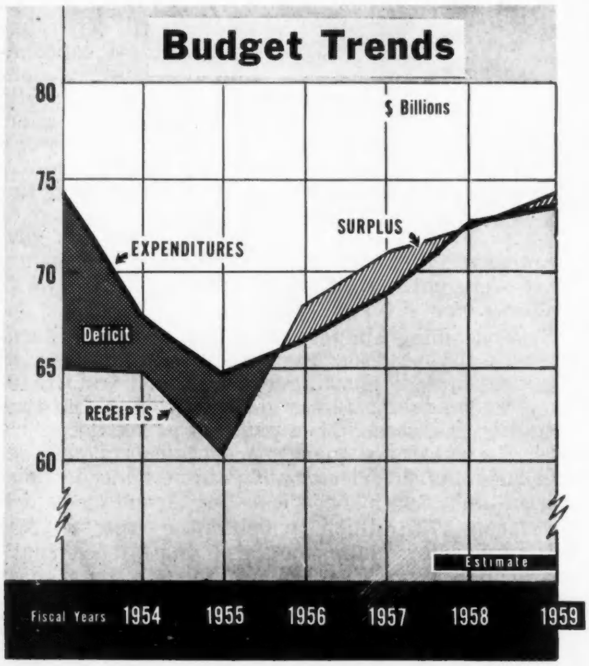
The President promises shifts of emphasis: *more money for missiles,* although much less than had been expected. *Atomic energy* and *education in science* will be advanced, probably at a formidable cost: *reduction in vital military programs* . . . including *bombers, bases, submarine defense* and virtual stoppage of procurement of material to fight limited wars, or prevent them.

Against the outgo, the President professes to see a $2 billion improvement in revenue, using present tax rates. It will not be forgotten in weighing the validity of this estimate that Ike foresaw a $1.5 billion increase this year. It won't turn out that way. The government will operate in a deficit—a small one to be sure when matched against a $70-plus billion dollar budget. But based on hopes rather than the outlook today.

Raising Debt Ceiling

President Eisenhower has asked for, and seems assured of getting, a $5 billion increase in the public debt ceiling, but some of the backstage politicking is enlightening. Seasoned Hill members examined that request in the light of apparent disparity between the amount of the budget and the demands of the times and many of them concluded $5 billion won't be enough leeway. The debt as of Jan. 10 stood at $274.2 billion, against a $275 billion ceiling. Among those who spoke out in favor of a higher ceiling was House Majority Leader John W. McCormack whose democratic party has a voting edge of 33 in the lower branch.

Some of Representative McCormack's friends counselled him to go along with the President on a $5 billion boost. They felt that the debt raise requested is inadequate and that the funds asked for by the President will not be covered by this increase. They express themselves as seeing political connotations in the President's suggestion, believing that the President's political advisers have told him the



Democrats will further raise the permissible debt and unbalance the budget. They then would have to shoulder the blame for raising the debt ceiling. Therefore, by going along with the $5 billion boost proposed by the President, any new increases necessary will have to be initiated by him, and the Republicans will bear the onus.

Regarding Ike's forecast of a $2 billion increase in Treasury revenues next year, Senator Harry F. Byrd of Virginia, No. 1 fiscal expert in Congress, snorted: "In view of present declining business, I believe a drop in tax revenue is more likely than an increase." But the President's estimate of the tax take seems over-optimistic, especially in view of the latest figures on unemployment and declining business activity: when he says personal income will rise during the fiscal year to a point that will produce $1.3 billion more in taxes; corporation income will produce $15 billion more than in the current fiscal year; the heavier excise taxes will add $62 million.

Defense Appropriations

Space age defense will cost $39.8 billion according to the President's computation. The cost planned for this year is $38.9 billion—only $900 million under what has been pictured as the "great effort." But the President says this doesn't tell the whole story. There will be increased emphasis on missiles and new weapons — ballistic weapons, ballistic missile submarines, further dispersal of the Strategic Air Command, and improvement of the early warning radar system, outer space projects, and basic research.

As the budget breaks down, the missile program would cost $3.3 billion. For airplanes $6.9 billion is to be available. When the cost of missile research and development, guided missile ships and missile-related construction is added to the $3.3 billion procurement figure, the total missile estimate reaches $5.3 billion. *Expenditures for aircraft therefore will be down 14 per cent,* and *expenditures for missiles will go up 360 per cent.* All fighters and bombers proposed for 1959 procurement will be capable of supersonic speeds and the use of guided missiles and nuclear warheads.

Expenditures for ships will rise to $1.3 billion. Major emphasis is planned for anti-submarine warfare vessels, some guided missile ships, and nucleur propulsion.

There will be fewer combat wings and *fewer aircraft under the missile-conscious program.* The Air Force will be cut from 117 to 105 wings and its inventory of planes reduced from 22,057 to 20,843. But the SAC will lose only one wing, with strength of B-52 long-range bombers unimpaired. The *budget will allow the Air Force to speed work on its "chemical bomber"—a plane capable* of *flying the Atlantic, round trip, without refueling.*

The Pentagon says the $1.3 billion supplemental appropriation for this year really should be charged to next year. It originally was in the new budget but scientific breakthrough and other happenings pushed the job forward.

The eye-lifter in the Budget

One of the eye-lifters in the President's budget message was an unprecedented request that $2 bil-

lion of defense funds be placed at his disposal, together with a $500 million contingency fund for defense purposes. In the present state of missilry development and international complication, this appears upon reflection to be a wise and safe "cushion." It gives the President maneuverability to act quickly if scientific developments justify it. He can level the flow of expenses in the three services, shifting part of the burden from a crowded branch, could break up inter-departmental bickering by switching programs and financing. Should the need for a crash program arise, the President could move without the delay and controversy of clearing it with Congress.

The $500 million account is a just-in-case fund—just in case it becomes militarily or diplomatically expedient to move with haste to take care of a problem that might arise somewhere in the world, or, better yet, to help a friendly nation head off a military or economic coup by Russia.

Capsule comment on the Budget:

BUDGET EXPENDITURES: Rise to $73.9 billion, highest in peacetime history.

BUDGET RECEIPTS: Rise to $74.4 billion, assuming present tax rates, including those scheduled to expire April 1, continue, — and Congress votes postage increase.

BUDGET SURPLUS: $500 million, precariously estimated.

FEDERAL DEBT: $5 billion increase, to $280 billion, appears assured with extension limited to one year. Interest on debt up $500 million, to $7.8 billion.

DEFENSE: Defense budget, $39.8 billion—$900 million over current year. Included is $3.3 billion for missile program; $6.9 billion for planes; $2 billion for missile research and development, guided missile ships and missile-related construction; $1.3 billion for ships.

SPECIAL DEFENSE FUND: President has asked that $2 billion of defense money be placed at his disposal for emergency shifting to meet arising problems and opportunities, plus $500 millions to move rapidly for military or economic defense of friendly nations.

WAR VETERANS: Veterans Administration will receive shade less than $5 billion, no appreciable change from current year.

AGRICULTURE: Appropriation of $4.9 billion asked. Soil bank program will be dismantled but not until 1958 crop year completed.

MUTUAL SECURITY: $3.9 billion, including $1.8 for direct military aid and $865 million for defense support abroad.

FOREIGN ECONOMIC POLICY: $2 billion more capital for Export-Import Bank; $625 million for Development Loan Fund; $200 million for NATO commitments for intermediate range ballistic missiles.

FOREIGN TRADE: Five-year renewal of Reciprocal Trade Agreements Act is asked, with additional power for tariff reduction vested in the President.

HIGHWAYS: Transcontinental highway program is under re-examination. Financed by trust fund, outside the budget. Labor and materials cost skyrocketing and original plan must be thinned or refinanced.

GENERAL GOVERNMENT: President has indorsed pay increases for military and civilian workers which will cost billions of dollars. President has asked for economies on civilian projects, postponement of numerous construction programs.

OUTLOOK: The public debt ceiling will be raised as requested; Congress will vote all military requests and most foreign aid money budgeted by the President, but will not reduce taxes. However, net result is deficit operation, which the President has said he prefers to more taxation. Despite promises, political partisanship will dominate Congressional thinking. Reciprocal Trade Agreements extension will split both parties, republicans more seriously, and an amended bill will pass which will recognize American industry's need for protection against import "dumping."

For Scientific Advance

Besides asking Congress to provide $140 million to the National Science Foundation for an expanded educational program, he asked that $10 million be provided in a "supplementary" for the current year, ending June 30. This amount, he explained, will permit NSF to proceed vigorously in expanding basic research and improving science education and administration under the aegis of the Department of Health, Education and Welfare. In spite of much publicized intent to overtake Russia's scientific lead, the HEW budget is only $45 million over last year. But there was some shifting about: for construction and operation of schools in federally-impacted areas (crowded because of U. S. Government inadequate facilities), $130 million would be available to HEW, against $225 million last year. This will be a battleground in Congress; it's doubtful that the slash will survive.

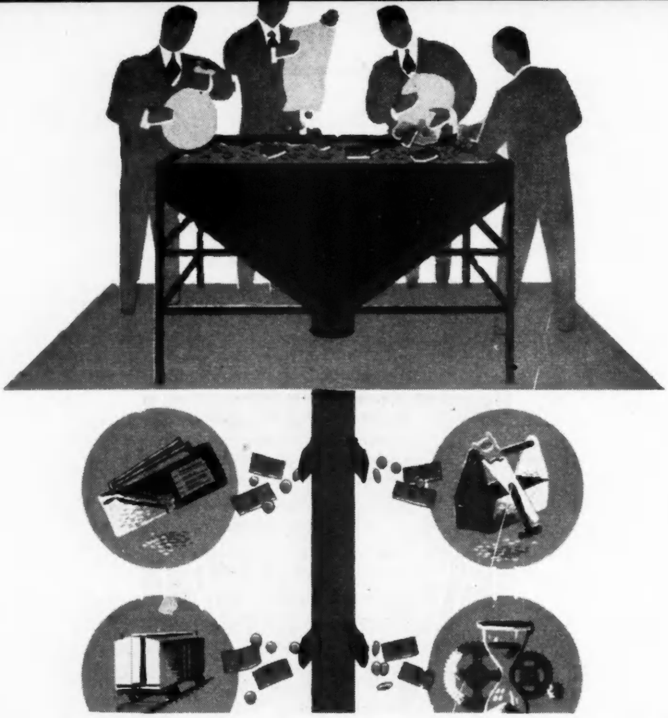
Other Economies

In reviewing the economies which the President proposes to a Congress he must know may be unwilling to go along, it becomes clear that Ike has compiled a list for the purpose of building a figure which can be cited later as "savings I recommended," rather than things he expects to be done. Farm benefits may yet be reduced, but there's little prospect that Congress will cut veterans pensions, public assistance grants and slum clearance programs already under way; rivers and harbors projects will be scarcely touched, and annual installment payments will be voted. Federal aid to schools is out, so is a prospective health and hospitalization program for government civilian employees. But the latter saving won't be net: Ike has recommended 6 per cent pay boosts for 530,000 postal workers, and 6.5 per cent increase for 970,000 classified employees, 6 per cent for military personnel. These wage hikes have a prospect of materializing only because this is an election year, but they would likely be passed up if they necessitated a raise in taxes.

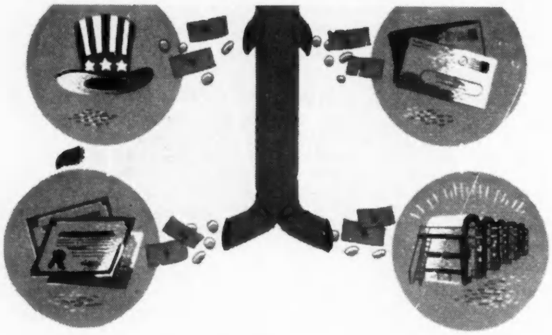
The U. S. Veterans Administration will be just short of $5 billion, almost the same as in this year. Another item which does not permit of adjustment to an appreciable extent is debt service—a whopping $7.8 billion. Agriculture is to get about $4.6 billion, against $4.9 billion this year. President Eisenhower wants to end the soil bank program at the end of the 1958 crop year but obviously that will not help the current spending situation.

Much of the 1959 Fiscal Year spending will come out of an accummulated but earmarked $69.2 billion carryover of funds appropriated in other years. Of the money Congress will be asked to set up in the next budget, an estimated $39.9 billion will not be disbursed until 1960 Fiscal year.

The mutual security account covering all military and some economic aid programs amounts to $3.9 billion which is $86 million more than the President originally asked for the current year and $1 billion more than Congress approved in the current budget. The military assistance (*Please turn to page* 593)



THE DIVIDEND OUTLOOK FOR 1958



By WARD GATES

Corporate dividends climbed to a new record in 1957, topping the previous year's total by approximately 3.5%. Thus some fears that payments might not match the 1956 figures proved unfounded. Nevertheless, the increase was considerably below the 8% rise scored from 1955 to 1956.

This is past history, however. Of immediate concern for investors is the course dividends outlays are likely to take in the year ahead—for 1957 shocked many shareholders into renewed realization of the simple, but often overlooked axiom that stock prices are dependent almost solely on prevailing business conditions and the consequent outlook for earnings and dividends.

Without any pretense of clairvoyance, it seems probable that total dividends in 1958 will not vary too greatly from the 1957 payout, because of the increase expected from banks, insurance firms and some of the larger companies. But within each group there will undoubtedly be considerable variation, as directors appraise future prospects in terms of the particular factors affecting their own operations. The large units in all but the most depressed industries can be expected to sustain payments if the business decline shows evidence of hitting bottom near mid-year. Smaller companies, on the other hand, less able to control costs and more severely influenced by competitive factors may find the need to conserve cash more compelling than the maintenance of high dividend rates.

This more divergent dividend pattern will impose a heavier responsibility on investors seeking to find investment security in an uncertan period. 1957 was a pretty chastizing year for many shareholders. After several years of prolonged economic boom and steadily rising stock prices, their eyes were glued more firmly on the bright promise of the future than on the cold realities of the nearer term outlook. As a result, a month-by-month deterioration of business conditions was either ignored or glossed over until the early fall when the recession became obvious to all, and the market "fell out of bed."

Companies With Dividend Stability

	1955 Earnings Per Share	1955 Div. Per Share	1955 Percent Pay-out	1956 Earnings Per Share	1956 Div. Per Share	1956 Percent Pay-out	1957 Earnings per Share (Estimated)	1957 Div. Per Share	1957 Percent Pay-out	Recent Price	Div. Yield	Price Range 1957-58
ALLIED CHEMICAL & DYE	$5.44	$3.00[1]	55%	$4.74	$3.00[1]	63%	$4.50	$3.00	66%	76	3.9%	98⅜-58½
AMERICAN HOME PRODUCTS	2.68	1.15	42	4.07	2.50	61	5.00	3.00	60	75	4.0	84¾-73
BORDEN CO.	4.61	2.80	60	5.01	2.80	55	5.10	2.80	54	64	4.3	64¾-51¾
C.I.T. FINANCIAL	4.03	2.35	58	4.12	2.40	58	4.30	2.40	55	45	5.3	47 -39⅝
FIRESTONE TIRE & RUBBER	6.82	2.50	36	7.43	2.60	35	7.32[2]	2.60[1]	35	89	2.9	101¼-81⅛
FOOD MACHINERY & CHEMICAL	4.53	2.00	44	4.72	2.00	42	4.65	2.00	43	49	4.0	65¼-42¾
GENERAL AMER. TRANS.	5.25	2.82½	53	5.71	3.15	55	6.60	3.52½	53	72	4.8	88 -67¾
GENERAL ELECTRIC	2.40	1.60	66	2.45	2.00	81	2.90	2.00	69	63	3.1	72⅜-52⅜
GENERAL FOODS	3.31	1.55	46	3.61	1.77	48	3.80	2.00	52	49	4.0	50¼-40
KROGER CO.	3.88	2.00	51	4.41	2.00	45	5.00	2.00[1]	40	64	3.1	66½-47
MERCK & CO.	1.55	.80	51	1.92	1.00	52	2.25	1.20	52	38	3.1	44½-29⅛
NATIONAL DAIRY PRODUCTS	2.98	1.60	53	3.02	1.75	58	3.25	1.80	55	40	4.5	39⅝-33
PITNEY BOWES	2.82	1.45[1]	51	3.14	1.60[1]	51	3.20	1.60[1]	50	56	2.8	70¾-44
PROCTER & GAMBLE	2.96	1.75	59	3.05	1.90	62	3.40	2.00	58	56	3.5	57¾-44⅜
STANDARD BRANDS	3.01	2.15	71	3.48	2.25	64	3.95	2.25	57	42	5.3	42⅞-37⅜
STANDARD OIL OF N. J.	3.61	1.75	48	4.11	2.10	51	4.40	2.25	51	50	4.5	68½-47⅝
SUNSHINE BISCUITS	5.94	4.00	67	6.20	4.00	64	6.60	4.00	60	74	5.4	75 -65½
UNION CARBIDE	4.86	3.00	61	4.86	3.15	64	4.80	3.60	75	95	3.7	124½-90
U. S. GYPSUM	4.98	2.20	44	5.01	2.50	49	4.75	2.75	57	67	4.1	69¾-51¼
WESTINGHOUSE ELECTRIC	2.46	2.00	81	.10	2.00	[3]	4.00	2.00	50	63	3.1	68⅝-52⅜

Companies With Wide Dividend Coverage

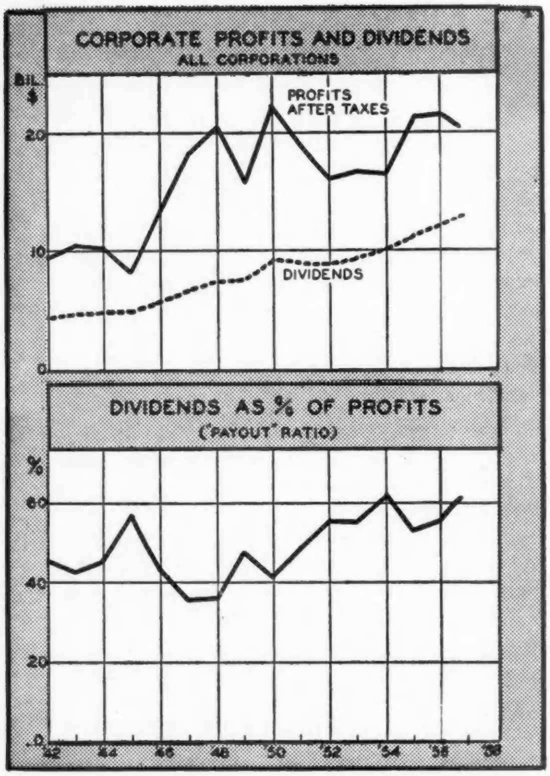
	1955 Earnings Per Share	1955 Div. Per Share	1955 Percent Pay-out	1956 Earnings Per Share	1956 Div. Per Share	1956 Percent Pay-out	1957 Earnings per Share (Estimated)	1957 Div. Per Share	1957 Percent Pay-out	Recent Price	Div. Yield	Price Range 1957-58
AMERICAN TOBACCO	$7.45	$4.40	59%	$7.51	$5.00	66%	$8.00	$5.00	62%	79	6.3%	79¾-69¾
BRUNSWICK-BALKE-COLL.	1.26	.12½[1]	10	3.08	.50[1]	16	4.75	0.65	21	33	2.0	36¾-25⅜
GENERAL DYNAMICS	2.82	1.42	50	4.14	1.60	38	4.90	2.00	40	64	3.1	68⅝-46¾
GRAND UNION CO.	1.90	.55[1]	29	2.43	.60[1]	25	2.60	.72[1]	27	34	2.1	37⅜-25½
HERTZ CORP.	1.84	.77½	42	2.63	1.00[1]	38	3.00	1.20[1]	40	38	3.1	42¼-27¼
JOHNSON & JOHNSON	5.38	1.65	30	6.14	1.65	27	6.25	1.95	31	88	2.2	97 -69
LORILLARD (P.)	2.07	1.35	65	1.34	1.20	89	3.50	1.95	55	34	5.7	35 -15⅝
REYNOLDS TOBACCO "B"	5.05	2.60	51	5.91	3.10	52	7.15	3.60	50	65	5.5	66¼-52⅛
SCHERING CORP.	2.36	.37½	15	3.02	.87½	29	3.60	1.05	30	35	3.0	37⅞-31¼
WARNER-LAMBERT PHARM.	4.07	1.70[1]	41	4.50	2.00[1]	44	5.25	2.37½[1]	45	59	4.0	68½-42⅛

Companies With Narrowing Dividend Coverage

	1955 Earnings Per Share	1955 Div. Per Share	1955 Percent Pay-out	1956 Earnings Per Share	1956 Div. Per Share	1956 Percent Pay-out	1957 Earnings per Share (Estimated)	1957 Div. Per Share	1957 Percent Pay-out	Recent Price	Div. Yield	Price Range 1957-58
ALCO PRODUCTS	$1.90	$1.00	52%	$2.11	$1.00	47%	$1.[illegible]	$1.00	71%	13	7.6%	19⅜-10⅞
ANACONDA CO.	7.52	4.25	56	12.85	5.00	38	4.00	3.00	75	41	7.2	72⅞-39¼
CARRIER CORP.	4.82	2.35	48	5.26	2.40	45	3.75	2.40	64	35	6.8	65¼-31⅛
CRUCIBLE STEEL	4.03	1.25	31	3.51	1.50	42	2.00	1.60	80	18	8.8	38⅜-16⅛
GREAT NORTHERN PAPER	4.46	3.00	67	5.44	3.00	55	2.60	2.40	92	50	4.8	85 -45⅛
KENNECOTT COPPER	11.60	7.75	66	13.23	9.25	70	7.25	6.00	82	79	7.5	128½-77½
KING-SEELEY CORP.	4.76	2.12½	44	3.78	2.50	66	2.04[2]	2.50	122	27	9.2	35¼-26
KOPPERS CO.	4.92	2.50	50	5.01	2.50	49	3.90	2.50	64	39	6.4	65½-33
SCOVILL MFG.	3.66	2.50	68	2.81	2.25	80	2.00	2.00	100	25	8.0	33½-21
UNITED FRUIT	3.82	3.00	78	3.45	3.00	86	3.50	3.00	85	38	7.8	47⅝-33⅝

1—Plus stock.
2—Actual annual earnings.
3—Dividends payed throughout strike situation.

By the end of the year a pronounced note of caution began to dominate the market, and as the new year opened it became readily apparent that prices in 1958 would be tied more closely to time-tested investment criteria than at any time in the recent past. This does not mean that only "sound" investment considerations will prevail. For undoubtedly heavy defense expenditures channeled into such exciting groups as the missile makers, rare metals' producers and selected electronics companies will stimulate speculative activity—but for investment buying of the broad list of stocks, earnings and dividend prospects are going to be the criteria.



The 1958 Outlook

It is much too early to hazard intelligent guesses on corporate earnings over the next year, but even assuming that the overall decline from present levels will not be too precipitous, there are several other factors in the dividend picture that must be considered.

On the positive side, companies are facing a decidedly less stringent money market in 1958—and with borrowing conditions more favorable there may be some easing of the cash pinch that has jeopardized some payments in the past. Thus **Thompson Products,** a leading producer of aircraft components recently announced that dividends would be maintained even though the rate of new orders had fallen sharply toward year-end. The company visualizes a lower level of business ahead, but apparently the easing of Defense Department progress payment restrictions, and better money market conditions have alleviated their cash position.

On the other hand, **Rayonier,** saddled with heavy amortization charges for its recent expansion program, and faced with a prolonged period of declining earnings, recently pared its 35¢ quarterly payment to 20¢.

Aside from money market factors however, the other elements in the dividend picture will hit individual companies with sharply varying impact. Factors of importance to watch closely:—(1) the continuing drop in profit margins, (2) the still unbroken rising wage trend which will tend to keep costs high, (3) greater consumer reluctance to spend, making it more difficult for companies to pass cost increases along in the form of higher prices, (4) the state of corporate cash, and (5) a general drop in the confidence quotient among company managers, leading to more conservative dividend policies.

Dividends and Stock Market Action

In light of these factors of uncertainty, and the outlook for poorer business conditions at least through the first half of the year, a number of half-forgotten, but time tested methods of security valuation will probably be taken out of moth-balls. Most of those individuals and institutions that are investment-conscious will pay more attention to the spread between stock and bond yields (which is still narrower than might be expected after the recent market drop), the ratio between earnings and dividends, the long term record of dividend coverage, and the financial ability of companies to maintain cash payments comfortably.

In the past few months the market has been reflecting these criteria noticeably. While prices of most industrial groups have either receded or marked time, electric utility shares, and the stocks of food processing companies, chain store operators and proprietary drug concern have been in good demand because of their established reputation for both earnings and dividend stability.

A Case Study

As a case in point, take a look at **Borden's.** The company is the second largest producer in the dairy industry, and turns out a wide variety of products ranging from such staples as milk, butter and cheeses, to synthetic adhesives and chemicals. Milk, which is probably the most stable of all food commodities, accounts for over 55% of Borden's sales volume, and all food products combined account for more than 90% of revenues.

Over the years the company's growth has proceeded about in line with the nation's economy, taking few giant steps in the process, but not many backward slides either. Dividends have been paid on a conservative basis each year since 1899. In 1957 the company paid $2.80 on each share from an estimated $5.30 per share in earnings. But what investors are finding most attractive is Borden's long record of good dividend coverage and a cash position equal to all current liabilities. As a result, Borden's is selling within a point of its 1957-58 high while most of the market is unstable.

Companies With Stable Dividend Records

In the accompanying table we have listed twenty companies with an *(Please turn to page 602)*

"A SHOT IN THE ARM" FEDERAL ROAD BUILDING PROGRAM

- ***A story of the scope and obstacles***
- ***Current stage of development***
- ***State and Federal participation***

By HAROLD M. EDELSTEIN

DESPITE the confusion created by conflicting newspaper headlines, the federal highway program is pushing along on schedule and may pick up speed in 1958. Only eighteen months after the passage of the new Act, over 1200 miles have been completed and an additional 2,000 miles have passed the planning stage and are actually under construction.

Spending for road building in 1958 is expected to top \$5.5 billion—an increase of almost \$850 million from the 1957 level—and should continue to rise for the next two years, as Federal allocations to the states increase (barring a stretchout of course). Thus, at a time when business generally is slowing down, the infusion of these new funds into the economy, coupled with rising defense ex-

penditures,—will act as an offset to the decline in private capital spending now underway. Whether it can counterbalance the entire spending drop in capital spending is doubtful, however.

Nevertheless, in its present state, the program is being used as a primary economic stabilizer. A study by an independent economic research organization last summer revealed that over 190 industries will be directly or indirectly affected by the project—and for some it will be their principal source of business. In 1958, over $2 billion will be spent on just such standard items as paving materials, steel and explosives, and additional millions will be expended for machinery which should bolster the earnings of manufacturers of road-building equipment.

Unfortunately for them, however, the program was in the planning stage so long, and was so well publicized that dozens of new operators have been drawn into the field, greatly intensifying competition. The volume of orders will be heavy but profit margins will be limited.

But despite its satisfactory start, research reveals some emerging problems that may in time put a serious crimp in this truly unprecedented public works problem. "Unprecedented" is not a loosely used word in this case when it is considered that the $100 billion figure bandied about in newspaper headlines equals one-third the total cost of World War II. Actually, however, that enormous sum includes many projects not specifically within the scope of the Federal program. For perspective then, and a clear picture of the entire program, a brief description is in order before discussing some of the more important trouble spots in the picture.

The highway construction program has borne several labels, each justified and essentially correct—yet none tells the entire story. To some it is a $27.5 billion program—to others it is properly a $33 billion,—a $50 billion or a $100 billion project,—scheduled to last from thirteen to sixteen years. The confusion stems from lack of clarification of what is included—but if the actual economic impact is to be ascertained, the facts of what is involved are of vital importance.

The Congressional Program

From the Federal Government's point of view, the most vital component is a projected 41,000 mile interstate network — designed as a closed-loop — a combination defense and transportation system — that will link virtually every major city in the country. Strictly speaking it is not a new program since its general outlines has been on the planning boards since 1944. What is new however is the huge share of the cost the federal government will bear, under a unique method of financing which links federal taxation with highway spending for the first time.

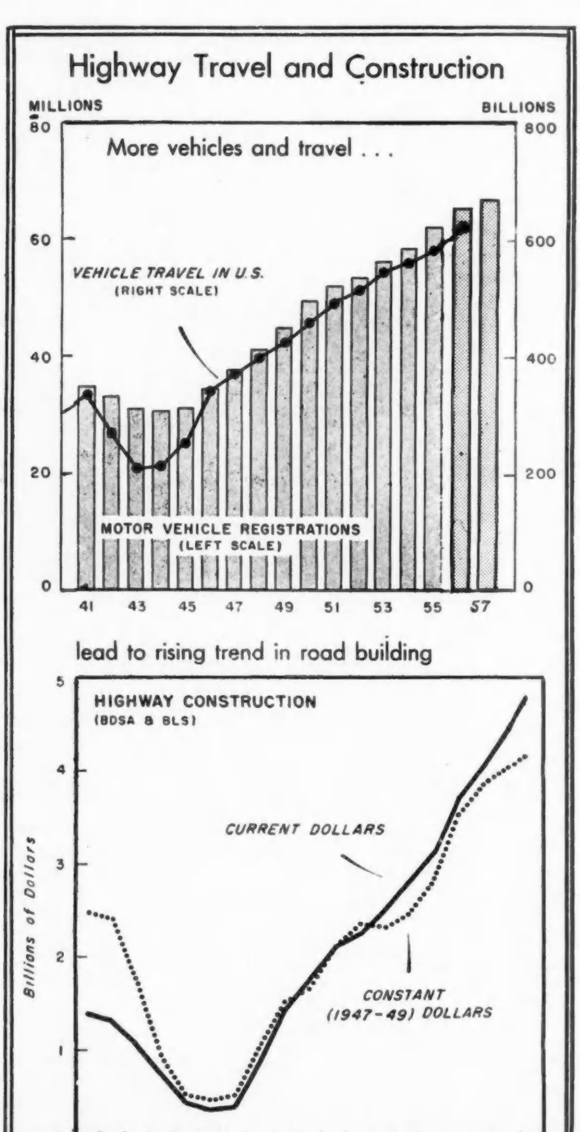
Prior to the Highway Act of 1956, the federal aid system, in which the national government shared highway costs with the states on a 50-50 basis, applied to approximately 750,000 miles of the country's 3,360,000 miles of highways and streets. Under the new plan—the 41,000 mile network—the Federal government will pay 90% and the states 10%. This single part of the program is the basis for the oft-quoted (and now obsolete) $27.5 billion cost estimates.

In addition Congress appropriated $2.5 billion to cover three years of operation of the 50-50 aid program. Combined with matching state funds, this $5 billion brings the roadbuilding total up to roughly $33 billion, another figure frequently cited. On top of this, Congress expressed its intention to continue to lay out $850 million a year for 13 years for the 50-50 program. Over a thirteen year period this totes up to a tidy $22 billion in federal and state outlays for a total federally sponsored program of over $50 billion.

Finally, it was expected, at the time Congress passed the Bill, that the states and localities would continue to expend approximately $4 billion annually for thirteen years for highways and streets outside the scope of the federal plan. This $52 billion added to the previous figures lends substance to the $100 billion label that has received so much publicity.

How Realistic Is the Program

Obviously any plan of such enormous magnitude



is going to run into difficulties. For one thing there are the usual controversies associated with any public works project: the local bickering over rights-of-way, drawn out legal battles over condemnations, and the perennial arguments over billboard space, service station and restaurant concessions, and so on. But on a more serious level, it is becoming increasingly evident that many of the states planned poorly for the project, some are having difficulty meeting their financial requirements – and many more are anticipating trouble meeting future obligations in the face of a business decline and reduced tax revenues.

The financing problem becomes even more acute in light of Secretary of Commerce Weeks' disclosure in January that the original $27.5 billion estimate for the 41,000 mile network has been jacked up $10 billion to $37.6 billion. While it is true that only a part of this whopping 37% increase is attributable to higher costs, the other reasons for the original underestimates offer little solace to those responsible for finding ways and means to pay for the new arteries.

The most important of these "other" reasons is the need for many more cloverleafs and urban interchanges than had been originally supposed. It seems the states understated the number required before the Highway Bill was passed, because preliminary hearings shed little light on whether the federal or state governments would have to bear the cost of local facilities. Once the law authorized the national government to include them in the overall plan, estimates jumped by 15% – as long as Uncle Sam was paying the bill.

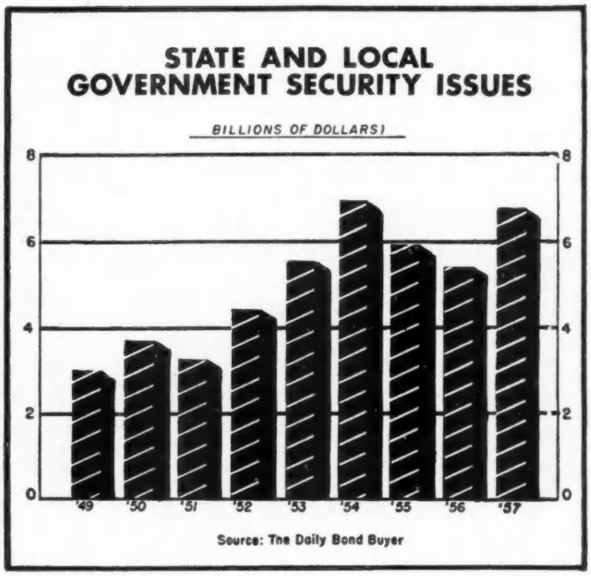
Higher costs actually increased the estimate by 12%, but this figure relates only to the 41,000 mile program. If applied to the grand total of $100 billion the $12 billion increase in less than two years becomes staggering. And what is worse, it is fairly certain that construction costs will continue to rise during the thirteen year period.

Despite these figures, however, the 41,000 mile interstate net seems assured of completion, although time schedules may prove more tentative than many suppose. The simple fact that the federal government will now pay for 90% of the construction seems to be an adequate basis for proceeding. Moreover, financing of this part of the project will be aided immeasurably by the stipulation in the Act providing for $14.8 billion to be derived from gasoline, tire and highway use–taxes to be levied over a sixteen year period.

The recent slowdown in the rate of growth of gasoline consumption could hurt the program in time, since revenue estimates are based on a 4% annual increment in the consumption rate–and the law forbids outlays from exceeding income in any given year,–but so far this has not been a source of serious concern. It will bear watching, however, since a pronounced drop in revenues would dictate either a slowdown in the program's progress or a change in the law.

The states are experiencing some difficulties in raising their 10 percent, but few see any ultimate problems in holding up their end of the bargain. Delays so far have been due more to inadequate, or incomplete planning and politics than to monetary factors. **In a few instances, further planning is being held in abeyance until the federal authorities decide whether or not they will reimburse the States for toll roads and freeways already constructed without federal assistance!**

The network is not only secure, but it may eventually exceed 41,000 miles. Originally, in answer to the state's demand for more assistance, the Congress added 1,000 miles to be apportioned among the states for access facilities to the new highways. When the states responded for their share of the added mileage, the total came to 12,000 miles. Some of this is obvious padding, but it appears certain that the 41,000 miles will be raised if the additional mileage is a major stumbling block to the entire program. (Politics–politics–at the cost of the taxpayer.)

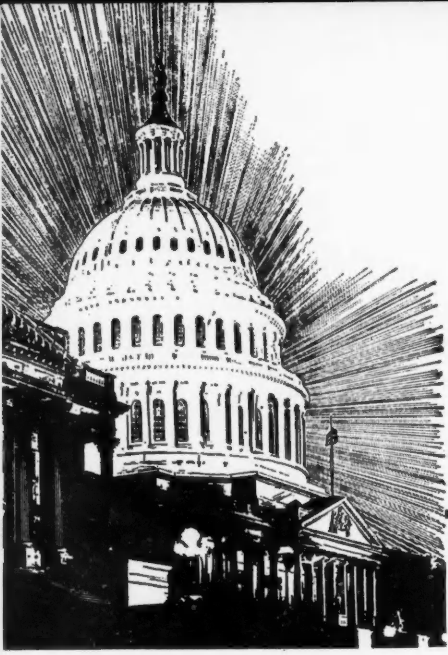


Source: The Daily Bond Buyer

Outlook for Secondary Roads

Outside of the network program, however, the picture is decidedly less clear. New revenues are coming harder and harder for the States and municipalities to secure–while costs of all governmental services continue to rise. The fiscal headaches created by this situation are already front page news in many areas. New York State will probably forego its annual $35 tax foregiveness this year, Connecticut is taking strong measures to control spending, and in New York City the mayor recently announced that pay increases for city employees were a virtual impossibility this year.

The reasons are not hard to find. The impact of slower business is felt immediately in smaller income tax returns, and lower revenues from sales and excise taxes. For roadbuilding this is particularly significant since many states have been diverting highway funds into non-road purposes for years. Now, with highway fund reserves depleted, and revenues from highway-use declining, the principal of forcing the highway user to shoulder the cost of construction is in jeopardy. It is worth noting in passing that in the last twenty years the states have diverted $4.5 billion of highway funds into other channels, and the rate has been increasing in recent years despite the promise of more federal aid. In 1956 alone $325 million was siphoned away in this fashion, and in the case of New Jersey (*Please turn to page* 601)



Inside Washington

By "VERITAS"

ROADBLOCKS in the path of AFL and CIO mergers are giving national headquarters the jitters. Ostensibly united, the two great labor groups are a long way from realizing the objective of amalgamating on the state and local level. It was easy enough to accomplish the get-together at the top, but the problems that were feared farther down the line have developed: neither organization wants to relinquish any degree of control. President George Meany has delegated two AFL-CIO vice presidents to inquire why Michigan units haven't merged. They'll report in detail.

WASHINGTON SEES:

The hope for a meaningful code of labor legislation appears to rest squarely on Congress with little assistance likely to come from the White House or the Department of Labor.

Secretary James P. Mitchell who is presumed to speak the Administration viewpoint in this area of operations, seems content to take the AFL-CIO program in toto and stop there. It can be argued that legislation is the function of Congress, not the Executive Department, and the contention is sound. But in the past, some guidance has come from "downtown".

Congress cannot escape its responsibility by citing the lack of a program. Canons of long overdue labor law have progressed to the bill stage. It is up to Congress to carry the ball. There are bills to bring unions under anti-trust laws, to bar compulsory union membership, to curb organizational picketing, and to close loopholes in the law against secondary boycotts. Based on his observations as a member of the labor abuses investigating committee, Senator Irving M. Ives of New York, has introduced a series of measures.

In addition to bills referred to above, Ives proposes elimination of the jurisdictional no man's land between state and national labor relations agencies, promulgation of a statutory guarantee of democracy in labor unions, penalties for misuse of union funds, elimination of "stranger" picketing, and criminal liability for middlemen in labor-management finagling.

ECONOMIES in the farm program are proposed by the President. Instead of allowing for the normal increase he proposes to Congress that the soil bank, some other benefits, be dropped. In an election year! Republican Congressmen are serving notice on the leadership that this must not happen; to permit it to come to pass would unquestionably cost the GOP many Congressional seats.

MANAGEMENT can learn much from organized labor on the economics of operating a business establishment. Private enterprises sometimes are confronted with problems arising out of an excess of manpower or the introduction of new and more effective methods. AFL-CIO faced like problems but quickly solved them: Effective Feb. 1, said an announcement on Jan. 16 (which gives a full two-weeks notice) approximately 100 headquarters and field employees will be dropped from the payroll. Some, who have reached the retirement age, will go on pension; attempt will be made to transfer some; others will be "separated." Explanation: "Finances and the need for streamlining the staff to current programs of AFL-CIO."

ACCELERATION of military procurement programs as the nation moves toward the missile and space age is building important support for legislation introduced this month by Rep. William E. Hess calling for study and remolding of defense contract renegotiation practices. The theory of renegotiation is fair to both contractor and Government. The complaint goes to the time lag between submission of a contract and re-determination. If as some believe, adequate personnel is lacking, the solution should be easily, speedily found.

As We Go To Press

▶ Decision of the White House and the Treasury to ask for a $5 billion increase in the public debt ceiling was in the nature of a compromise. Ike would rather have $10 billion leeway, for fiscal strategic purposes, but the smaller amount was asked in an effort to placate Senator Harry F. Byrd. The Virginian will continue to grumble against any boost. But eventually, the White House appears to feel assured, he will soften, or withdraw, his objection. The Administration was willing to go to any reasonable length to get out of the present straightjacket. Assuming the requested boost is enacted without delay, the Treasury can solve the problems of early refinancing needs, and expenditures which have been deferred can be made despite the seasonal slowdown on tax receipts.

▶ Congress may be forced to go above the $280 billion dollar ceiling before the end of the next Fiscal year. Under the best of conditions, the idea of so closely estimating income and outgo on a government operation running to approximately $74 billion, and coming up with $500 million leeway, is little more than an interesting exercise in arithmetic. Under the more normal conditions prevailing in the current year the guess will be about $2 billion off! But the President professes to see $500 million left over, against most of the odds. If the postage rate increase isn't voted as he outlines it, the computed balance disappears. It would be hard to find anyone in, or out of, the Administration who believes Congress will raise the minimum letter rate to 5 cents, there are few who believe Congress, in an election year, will increase by 15 per cent annually for the next four years, the postal costs of newspapers -- home town papers included, of course.

▶ Walter P. Reuther has demonstrated his mastery of the art of public relations once more. Last August he won approving nods all over the country with the suggestion that auto manufacturers cut prices $100 a car. There was, naturally, no offer on the part of his United Auto Workers to make this possible through actions at the bargaining table. His latest is a program to distribute automobile company profits above 10 per cent on net capital before taxes, among corporate executives, stockholders, workers, and consumers. That, too, is something for almost everybody; again, without the unions giving an inch. Reuther makes the grandiose gesture of giving up demands for a four-day week -- something his members didn't want anyway and months ago had made that fact clear.

▶ When one bothers to particularize the faults inherent in this notion, he finds many. Reuther is attempting to speak not only for the workers but also for management and the consuming public as well as the shareholders. And he's talking about matters that do not fall on the labor-management bargaining table; things that aren't in the realm of collective bargaining. By incorporating in his plan, wage increases, costly changes in working conditions, health and hospitalization benefits, the UAW head appears to dispose of the issue of profits distribution. There wouldn't be any to distribute! Yet the something-for-everybody aspect of the "plan" is such that he will go into negotiations with the companies with lots of newly acquired public support.

▶ Apart from its basic meaning, the Budget is a document of extraordinary collateral interest. This year's is 225 pages lighter but more than $2 billion heavier than the one submitted last January. Another 100 page reduction might have brought national bankruptcy! The $73.9 billion schedule breaks down to $72.2 million a page, on straight arithmetic. The total is $434.70 for each person in the United States on a per capita basis. In a 1952 campaign speech, one partisan student of the archives was joyed to find Ike saying: "I don't know what the amount

of taxes represent when we talk about a $70 billion (Truman's last) Budget. Is that this room full of bills, or is it 3 truckloads. I don't know! But I do know this: We can't afford what we are spending and stay strong enough to lead the world to peace."

▶ While Republicans are a 30-odd vote minority in the House of Representatives, the GOP leadership isn't singing the blues. The powerful chairmen of 13 of the 19 standing committees of the House represent constituents from below the Mason-Dixon Line and their philosophy frequently differs radically from the positions of the northern Democrats, even more from the philosophy of their National Chairman, Paul A. Butler, and his hand-picked Democratic Advisory Committee which leaders of the House have refused to join. The margin of Democratic strength in the Senate is even slimmer and the clash of ideologies is as sharp.

▶ Rep. Robert W. Kean of New Jersey, sponsor of the Administration's Reciprocal Trade Agreements Act extension from the outset of the Eisenhower Administration, has relented. At first he steadfastly refused to introduce the bill this year, with its 5-year term and greater tariff-cutting powers in the White House. But Kean is a political good soldier and when no other Republican on the committee would sponsor the measure he answered the plea not to let the President down. But his own forecast has not changed. He said: "With the renewed industrialization of the south, with the lesser importance of the cotton export business to that area, and with the resulting number of Democrat Congressmen who now have taken a position in favor of high tariffs, the chances of enacting the President's recommendations in this field do not seem to be too good." Kean is under heavy fire from his heavily industrialized district, to vote against his own bill!

▶ President Eisenhower will be in a position to cite a recent incident to support his contention that economic friendship stands just below military strength in world relationships. An increase in the customs duty on lead and zinc was submitted to the White House, acting under the trade treaty program's "peril point" to protect United States industry. Reaction was prompt. Fifteen Latin American countries formally criticized the action saying: "Any restrictions on the trade in lead and zinc to which this resolution refers would be at variance with the spirit of cooperation proclaimed within the inter-American system."

▶ The end of a chapter in a major story of civilization's rise -- or fall -- is being written in an offer of real estate for sale, issued by the Community Disposition Office of the Housing and Home Finance Agency. Uncle Sam is putting on the market 1,200 acres of vacant land and 541 residential building lots in the atomic city of Oak Ridge, Tenn., a community of 28,000 population that was built, occupied and in full swing before the world knew it existed, and few living there knew why -- until the A-Bomb dropped on Japan. Oak Ridge was the site of the Manhattan Project.

▶ The real estate, now surplus insofar as government purpose goes, is being offered for residential subdivision in parcels ranging from 9 to 272 acres. Utilities extend to the property lines, or are generally available. Bids will be received up to Jan. 31 -- a single parcel, or all. Oak Ridge was built at a higher unit cost than almost any other city in the world. Time was of the essence and cost was not a deterrent to speed. Its resident population is peculiar in at least one respect: most of those living there worked on the Manhattan Project without having the remotest idea of the end project, and almost all the residents hold United States certificates of commendation for a war service they didn't know they were rendering.

▶ Opponents of subscription television are rushing against a March 1 deadline to stop the Federal Communications Commission from issuing experimental licenses authorizing a three-year trial in selected cities. The outcome of the test may bring fundamental changes in the viewing, and advertising habits of the Nation. More than 30,000 receiving set owners have a stake; so, too, have established television stations and the motion picture industry, not to mention producers of sports events and other forms of entertainment.

Workers bagging fertilizer for shipment.

A new ship is launched at the Kobe shipyards.

Men and women on assembly line making small diesel parts.

JAPAN REACHES OUT

Her Amazing Recovery is One of the Phenomena of the Day

By V. L. HORATH

* As the New Year opened for Japan, its people were troubled by the implications of the sputnik, the stepped-up economic and scientific rivalry between Free World and the Communist orbit, and the spreading shadow of global recession. Like many other countries, Japan had been riding the crest of a surging economic boom. But early last year Japan found its boom getting out of hand. It could no longer afford to pay for the increasing volume of imports needed to sustain continued growth. Thus some vigorous belt-tightening was necessary.

This is the third time in the postwar period that Japan has faced economic difficulties. The first was in 1949-50 when American emergency aid was reduced and Japan had to stand on its own feet. The second was in 1953-54 when the Korean War boom petered out and a strong dose of deflation was needed. This time the problem is excessive imports and an alarming drain-off of foreign exchange reserves.

The present world situation leaves little room for remedying Japan's trade deficit by expanding exports. In fact, considering the global retrenchment now in progress, Japan will have to fight to keep existing markets. More than half of Japan's exports go to countries with foreign payments difficulties resulting from declining commodity prices. The rest go to industrial countries like the United States facing a recession.

Russia's scientific breakthrough with the sputnik came at a time when many Japanese were pressing for lessened dependence on the United States and a more neutral role for Japan. There had been mounting agitation for ending U.S. A-bomb testing in the South Pacific. Now, with the world daily getting smaller, a serious reappraisal of Japanese-U.S. relations is in progress.

How did Japan's present economic difficulties

come about? Paradoxically, from unexpected prosperity! Japan's gross national product has more than doubled since 1950 while industrial production has tripled. This has been the result of rapid growth in exports investment, and home consumption. But since Japan is critically lacking in raw materials, each of these has required a burgeoning of imports. The result has been a growing deficit in Japan's international payments.

Background of the Boom

- Japanese exports have increased steadily in recent years, having more than doubled since 1953. Active trade promotion and worldwide prosperity are responsible for this increase. But it has been necessary to import growing quantities of fuel and fiber, metal ores and scrap, and other raw materials to supply these export industries.
- Mounting investment in new capacity and plant modernization has been a logical response to the business boom. This has intensified the scramble for resources, causing even more demand for imports. It has also increased Japan's foreign purchases of machinery and capital equipment.
- Rising consumer spending has been the third factor buoying the economy. Japan is now more prosperous than ever before. Wage earnings have doubled since 1950. A succession of good harvests has upped the purchasing power of rural areas. Higher living standards are reflected in growing sales of washing machines, radios, and motor bikes.

The deficit in Japan's foreign payments, which began to appear 18 months ago, was the inevitable result of imports increasing faster than exports. It was further accentuated by declining dollar earnings from American troop spending and maintenance of U.S. military bases in Japan. This development reflected the gradual withdrawal of U.S. forces. The gap in international payments, initially of manageable proportions, got out-of-hand early in 1957 and foreign exchange reserves drained off at the alarming rate of $100 million per month.

While imports continued to accelerate during the first half of 1957, Japan's exports showed a dwindling rate of growth. Stiffer competition in world markets and declining availability of foreign exchange made the going rough. Except for ships, chemicals, and synthetic fabrics, most of the export categories showed little gain in 1957. Export earnings from shipbuilding climbed to nearly $400 million in contrast to only $80 million two years earlier. Although Japan has several years of backlog of construction orders on hand, the sharp drop in ship charter rates has caused some recent cancellations.

Japan Applies the Brakes

To protect its reserves, the Japanese Government moved vigorously. A whole series of defensive measures were adopted:

- The Bank of Japan's discount rate was raised to a high of 8.4%.
- Government deposits of foreign exchange with commercial banks were drawn down.
- Security deposits for import licenses were increased.
- Commercial banks were instructed to slow the growing volume of their lending.
- Allocation of foreign exchange for imports during the second half of the current fiscal year was reduced 25% below the level of the first half.

As a result of these steps, imports were gradually cut back, and, starting in July, the foreign payments deficit began to decline. With stockpiles of imported raw materials more than 50 per cent above the previous year's level, Japanese industry should be able to adjust without undue hardship. By October, a small surplus in Japan's international payments was recorded, and this was sustained during the entire fourth quarter. Through the end of 1957, money supply and bank credit were still expanding, but at a slower pace. With Japan's New Year's holidays over, some seasonal decline is now expected.

Although new problems may arise, the adverse tide in Japan's economic fortune seems to have turned. The drain on reserves apparently was halted last Fall. The Government's holdings of freely useable foreign exchange dropped from a peak of $1.2 billion at the end of 1956 to a low of about $650 million in mid-1957. Although losses continued until the fourth quarter, they were made up by $300 million of emergency loans from the International Monetary Fund and the U.S. Export-Import Bank.

U.S. TRADE WITH JAPAN
(Millions of Dollars)

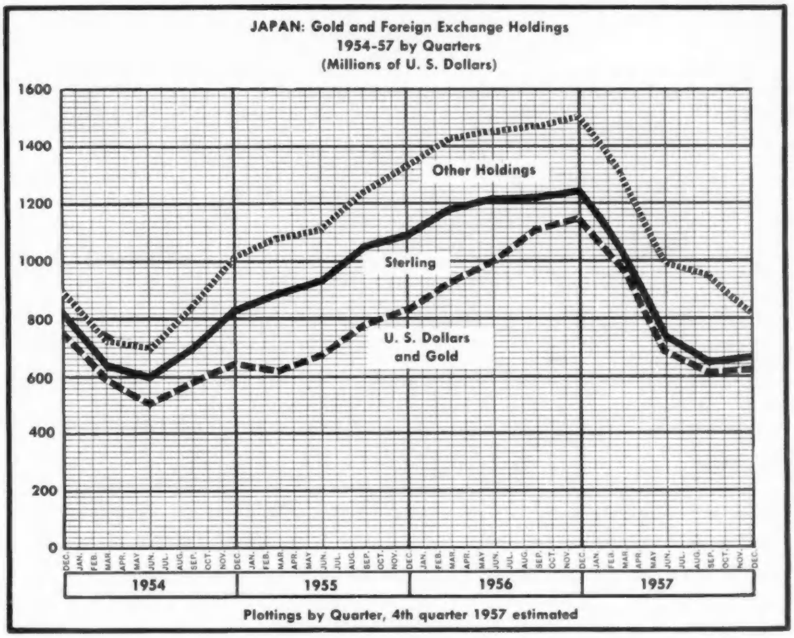
Exports to Japan:	1953	1954	1955	1956	Est. 1957
Grains & prod.	143	142	142	96	100
Raw cotton	116	175	121	180	210
Oilseeds	51	53	59	54	50
Coal	34	25	24	32	55
Petroleum products	31	24	28	38	55
Metals, ores, & scrap	35	49	44	217	340
Machinery & vehicles	93	84	70	84	160
Chemicals & drugs	41	36	46	70	85
Others	124	89	103	116	145
Total	688	677	637	887	1,200

Imports from Japan:	1953	1954	1955	1956	Est. 1957
Sea food	37	40	42	54	60
Silk & manufactures	44	46	57	63	60
Cotton manufactures	19	23	60	84	70
Other textile prod.	19	26	42	57	65
Wood & paper prod.	19	32	52	66	70
Chinaware & pottery	13	16	20	27	30
Metal manufactures	43	19	45	71	80
Machinery & elect. equip.	10	10	16	24	40
Toys & sporting goods	8	10	16	24	30
Others	48	54	66	78	95
Total	260	276	416	548	600

Developing New Exports

To meet the challenge of worldwide industrialization, Japan has been developing new export in-

dustries producing capital equipment, precision instruments, and consumer durables. Textiles, which once accounted for more than half of all exports, and other soft goods have declined in importance. Celluloid toys, cheap crockery, and cardboard have given way to sewing machines, super-tanks, and surgical instruments. Whole new industries have sprung up in the field of optics, chemical fibers, and motor cars. Since the beginning of 1956, Japan has overtaken Great Britain as the world's leading shipbuilder. One long-run advantage of these industries is that proportionately they utilize more labor and less imported raw material (per unit of export value) than the older consumer goods lines.



Japan's shift to heavier industry has raised fuel consumption and spurred the search for new energy sources. Besides modernizing its uneconomic coal mines, Japan has been pushing the development of remaining hydroelectric sites. Since this involves flooding some of the best farm land (another scarce resource), it creates new problems while solving old ones. Atomic power is Japan's hope for the future, but for another decade imports of coal and petroleum will rise. The nation's fuel import bill jumped from $50 million in 1950 to more than $600 million last year.

Importance of U.S.-Japanese Trade

The United States is Japan's principal trading partner. The widening deficit against Japan has created problems for both countries. The United States imported about $600 million of Japanese goods in 1957, up 10% from a year earlier. In contrast, United States exports to Japan climbed to $1,200 million last year, up 35%. Japan is our best overseas customer after Canada.

The growth of Japanese sales to the United States has slowed because Japanese exporters are anxious not to jeopardize the goodwill they have earned in their most profitable overseas market. In pre-war years, there were numerous complaints of dumping and shoddy merchandise. But Japanese trade associations now promote good design, control quality, and in certain cases limit exports. They have voluntarily agreed to quotas on sales to the United States of such products as cotton textiles, plywood, tuna fish, sewing machines, and steel flatware. On the other hand, United States exports to Japan last year increase in almost all categories (see table), but the most striking gains were scrap metal and machinery.

JAPAN: Foreign Trade*
Millions of U.S. Dollars

	Exports	Imports
1947	174	526
1948	258	684
1949	510	905
1950	828	974
1951	1,355	1,995
1952	1,273	2,028
1953	1,275	2,410
1954	1,629	2,399
1955	2,010	2,471
1956	2,501	3,230
1957 estimate	2,700	4,300

* total trade according to Customs statistics.

During 1958, it may be expected that Japanese producers will explore opportunities for broadening their sales here. The emphasis will be on quality merchandise and specialty goods. Greater attention will be given to trade promotion and advertising. In the aggregate, Japanese sales to the United States, may register another modest gain despite the restraints Japan has placed on specific products.

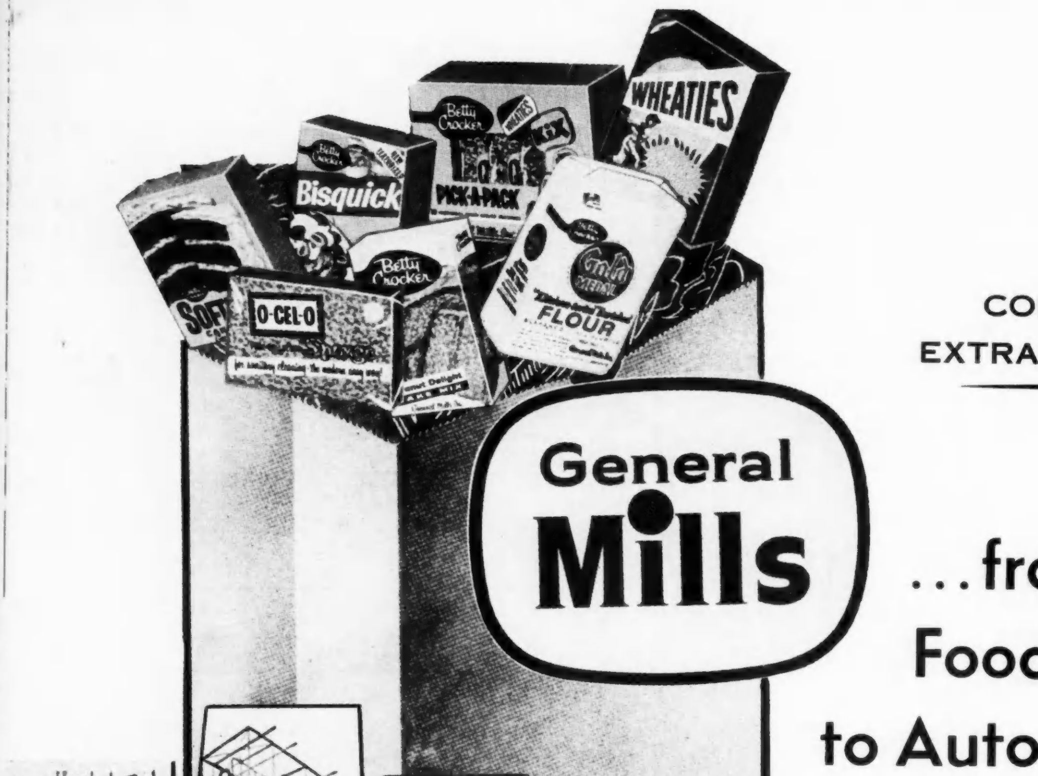
United States exports to Japan have been artificially inflated during the past few years by our Government-subsidized shipments of surplus cotton, soybeans, and foodgrains. Although the same conditions are not likely to recur in 1958, Japan will probably remain our second best overseas market. But, of necessity, Japan will have to reduce its large trade deficit with the United States.

Seeking New Markets

The slow growth of Japan's trade with Southeast Asia has been especially disappointing since this region is complementary to the Japanese economy. But these poorly developed areas do not have sufficient income to carry on much trade. Balance-of-payments troubles in most of these countries and some lingering ill will from World War II are also retarding factors. Also, there is growing competition for these markets from Red China. However, reparations agreements now in effect or under negotiation should add $100 million a year to Japan's trade with Southeast Asia.

Japanese businessmen still dream of their lost trade with the China mainland. Before the war, this amounted to about 15% of Japan's total trade, whereas to-

(*Please turn to page* 595)



COMPANY EXTRAORDINARY

...from Food Stuffs to Automation

By CHARLES W. FINLAY

THE Lone Ranger and Wyatt Earp have much more in common than their quick gun hand, unerring aim and fearless pursuit of justice and desperados. Along with thousands of other equally diligent people, they toil in the many and varied fields which combine to form General Mills, Inc. Together, these industrious hands and righteous fists last year helped General Mills grind out a new sales high of $527,701,677. However, even such stalwart allies as these could not forestall a slight dip in net earnings and income per share.

But this is deemed to be merely a temporary setback and plans are already afoot and new products at hand to lift the company's sales and earnings into a new upward spiral. General Mill's ambitious research program already has reaped enough rewards to lay a solid foundation upon which to build a prosperous future. Not the least of these is a new process for the bulk production of arginine. Until recently, arginine, a basic amino acid, has been available only in minute quantities. However, arginine will no longer be in short supply and pharmaceutical houses, research centers, hospitals and universities are studying its potential application in the treatment of patients for comas resulting from malnutrition, alcoholism or internal hemorrhaging. The new chemical also is being tested for its therapeutic value in the treatment of uremia.

The development of arginine by General Mills has overshadowed the fact that another basic amino acid essential to the human health, lysine, has become an increasingly important bread-winner for General Mills. The development of a process for producing l-lysine in bulk from natural materials will permit production economies and enhance its market potential.

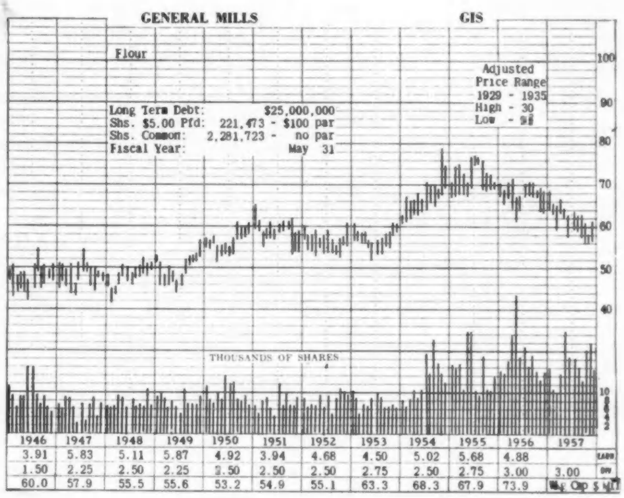
Research and Product Development

Perhaps the most dramatic and far-reaching discovery of the General Mills' research division is contained in the announcement that the company's scientists have been able to form the components of all living cells by atomic radiation. Experiments indicate that radiation may have been the cosmic instrument which formed the first amino acids, the building blocks which may have been transformed

in nature's vast and busy laboratory into the first living cell and, eventually, into man. While it is impossible to assess the economic significance of this achievement as yet, it nevertheless suggests the wide scope of General Mills' research activities and the rich creative potential which the company possesses in an age when progress or stagnation may be decided by a firm's capacity to develop new products.

The vital role played by research and new products is evident in the company's broad "product mix" and in the very organizational structure of General Mills. The grocery products' division, for example, produces packaged foods, flour for household use and other household specialties. The company's sixteen flour mills grind about 15% of the nation's flour, including such familiar household items as Gold Medal flour, Softasilk cake flour as well as bakers' and export flour. Production of oat products and other grain activities also are the responsibility of General Mill's flour division, which has traditionally accounted for about half of total sales. In 1957, for example, General Mills sold $234 million worth of flour here and abroad.

The second largest category in the General Mills sales picture consists of package foods and household specialties. The production and marketing of these items—including such famous assets as Betty Crocker cake mixes, Wheaties, Trix, Sugar Jets, Corn Kix and Cheerios – are the reponsibility of General Mills' Grocery Products Division. Package foods and household specialties, along with flour, are the sturdy pillars on which General Mills reaches vigorously for a future in which missiles, chemicals and electro-mechanical products will play as prominent a role in the company's profit picture as the food staples which fed General Mills' growth to corporate adulthood. It may well come to pass that when the Lone Ranger rides over the horizon to the cowboy's Valhalla, he will be replaced in the affections of the nation's young by a worthy successor riding a General Mills' space ship.



Reaching Into Space

The prospect of missiles bearing a name which has been traditionally associated with such profitable but more prosaic lines as flour, feeds, baking mixes and cereals is not merely an idle fancy inspired by our new-born interest in outer space. For General Mills' mechanical division already has been awarded a prime contract for the production of a new missile for the Navy. Neither the amount of the contract nor the nature of the missile can be revealed because of military security. But the significance of this contract in terms of the company's future role in the missile field lies in the fact that the development work, and much of the design work on the missile was done by General Mills. In addition, the company's Mechanical Division has been awarded sub-contract for guidance system assemblies for a new surface-to-surface missile as well as contracts for major parts of the B-52 and B-58 jet bomber defense systems.

General Mills' Mechanical Division is the largest in total employment of the company's nine divisions. The 2,000 employees at these plants are presently involved in a wide range of military and commercial projects. These include radar antennas, "robots" for handling "hot" atomic materials and other control devices of (*Please turn to page* 599)

Long-Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin	Income Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range High Low
1957 (6 mos. ended Nov. 30)	$265.0	......	....	$ 7.7	$ 6.4	2.4%	$2.59	......	......	....
1957*	527.7	25.3	4.8%	14.2	12.2	2.3	4.88	$3.00	9.0%	69 -56[1]
1956	516.0	29.8	5.7	16.1	14.0	2.7	5.68	3.00	10.6	71¾-61
1955	513.6	26.0	5.0	14.5	12.3	2.4	5.02	2.75	10.0	77¾-66⅜
1954	487.5	22.3	4.6	11.4	11.1	2.3	4.50	2.50	9.2	78¾-60¼
1953	483.0	22.2	4.6	11.4	11.4	2.3	4.68	2.75	9.8	61 -52
1952	468.8	21.3	4.5	11.5	9.5	2.0	3.94	2.50	8.8	60¼-52¼
1951	435.9	24.4	5.6	13.0	11.5	2.6	4.92	2.50	11.0	65½-53½
1950	395.8	20.7	5.2	7.5	13.2	3.3	5.87	2.50	13.2	61½-51⅝
1949	410.3	17.5	4.2	6.2	11.6	2.8	5.11	2.25	12.5	56¼-44⅜
1948	458.4	22.1	4.8	9.0	13.0	2.8	5.83	2.50	15.3	53 -40½
10 Year Average 1948-1957	$492.2	$23.1	4.9%	$12.5	$12.6	2.7%	$5.30	$2.62	10.9%	78¾-40½[2]

*—Fiscal years ended May 31. [1]—1957-58 price range to 1/14/58. [2]—Ten year price range.

APPRAISING YEAR END CORPORATE STATEMENTS

—And First Quarter Trends

PART I

By PAUL D. GESNER

◆ It is becoming increasingly clear that the forward outlook for industrial companies is changing daily, and that we have arrived at a wait-and-see period.

The first annual reports for 1957 are trickling in, but they may hold little portent as to what is coming in the next three, six or nine months. Conditions are changing that fast.

One significant fact pointed up by the reports is that industrial companies generally are continuing to carry on operations with a minimum amount of cash. Liquidity, in fact, is the lowest since 1939. To give the over-all picture, corporations in the United States, excluding banks, savings and loan associations and insurance companies, were holding cash and U.S. government securities totaling $57.3 billion at the end of 1955. By the end of 1956, this aggregate had declined to $53.3 billion. On September 30 last, cash and government holdings had dipped to $49.3 billion.

Another factor that thrusts itself out of almost every 1957 report is that the cost of doing business is higher than a year ago.

Bendix Aviation is an excellent case in point. For 1957, Bendix had sales of $711,200,000, compared with $581,400,000 in 1956 – but profit margins dipped. There was competitive pricing, labor costs rose, materials became more expensive, and there were continued large outlays for developmental and engineering projects in connection with aviation and other military products. As a result of the increased costs, the company's profit margin declined to 3.8 per cent, compared with 4.1 per cent in 1956.

Currently cutbacks and stretch-outs in the defense program have upset Bendix production of complex items for the armed forces. Its diversified output of automotive, electronic and marine products is being affected by the slowdown in industry generally. Many of its newer electronic products have large future potentialities, but from the immediate earnings standpoint, their importance is small now. Thus, the course of sales and earnings in the months ahead will be determined more by the developing business trend than by any base established in 1957.

Changing Economic Factors

The economic winds are shifting with every new

gust from Washington, Wall Street, Detroit, Pittsburgh and main street.

Right now, many say the decline in industrial activity, which got under way last year and is still continuing, may flatten out sooner than expected.

A fortnight ago, the majority feeling was that the storm signals for further recession might remain hoisted far into 1958.

The newest change in sentiment—and annual reports of companies operating on a calendar year basis may bear this out—is the feeling that inventory liquidation by major durable goods producers may be proceeding faster than believed. We hope it proves true.

A year ago, when business was at close to peak levels, inventories were being accumulated in all industry at a pace of $5,000,000,000 annually. Right now, there are indications that items in inventory are being moved out at a rate of $3,000,000,000 annually.

If forthcoming reports show this to be so, then the current recession in industry may be shorter in duration than many expect at this time. The bottoming out, however will depend on a simultaneous pick-up in orders.

The indicators upon which a continued decline in manufacturing activity have been predicated include (1) the December drop in the Federal Reserve industrial activity index to 136, contrasted with a high of 147 in December, 1956; (2) a drop of 38 per cent in steel production, (3) a reduction of 20 per cent in passenger car production, (4) another markdown in copper prices to around the 25-cent level, (5) cutbacks in aluminum output, (6) a volume of freight traffic running 16.4 per cent below a year ago, (7) a $2.5 billion chipping of the rate of personal income to $343 billion annually, and (8) a rise in unemployment to 3,374,000, with a prospect of a further increase.

Plus Factors in 1958 Outlook

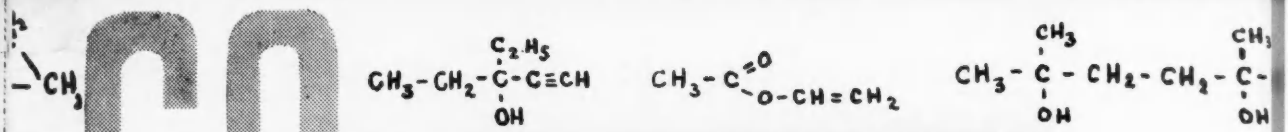
On the other side or the coin, however, are a variety of plus factors, some of which seem to promise an earlier return to stability than was in sight last month when each new day brought news of further production cutbacks, plant closings, and worker layoffs.

Among these are (1) a high level of retail sales, despite recession headlines; (2) indications that the construction outlook remains strong, with forecasts of another 1,000,000 housing starts this year, and likelihood of larger state and local school and institutional building; (3) indications of an early and robust step-up in missile production, as against last year's order cutbacks and stretch-outs which served to accentuate the industrial slowdown and rise in unemployment, particularly in the final half; (4) a growing sentiment in Washington to step in and "prime the trade pump" if the industrial lag worsens (there are Congressional elections coming); (5) possible new Federal Reserve steps to ease money rates; (6) a possible quickening of the giant Federal road-building program; (7) a continued high volume of capital expenditures by electric companies and others who must (*Please turn to page* 597)

Comparative Sales, Earnings & Net Profit Margins of Leading Companies

	Net Sales (Millions)		Net Profit Margin %		Net Per Share		Net Per Quarter 1957			
	1956	1957	1956	1957	1956	1957	1st	2nd	3rd	4th
American Encaustic Tiling	$ 10.4	$ 12.2	10.1%	10.4%	$1.56	$1.82	$ .30	$ .52	$ .49	$ .51
American Distilling	71.4	76.2	1.8	1.9	3.07	3.44	1.02	.61	.82	.98
American Motors	408.4	362.2	[d]4.8	[d]3.2	[d]3.48	[d]2.12	[d] .53	[d] .41	[d] .20	[d] .98
Armour & Co.	2,011.4	1,935.7	.6	.1	3.09	.72	....	.27[1]	....	.45[1]
Bendix Aviation	581.4	711.2	4.1	3.8	5.04	5.44	1.25	1.38	1.40	1.47
Carrier Corp.	238.3	263.4	4.5	2.8	4.99	3.17	....	....	2.40[2]	.77
Caterpillar Tractor	685.9	649.9	8.0	6.1	6.08	4.32	1.60	1.40	1.08	.25
Celotex Corp.	76.4	68.6	7.7	5.6	6.42	4.00	.86	.81	1.18	1.15
Cessna Aircraft	66.2	70.0	6.3	5.5	5.75	5.04	1.15	1.11	1.49	1.34
Chain Belt	56.7	59.5	8.2	7.7	6.73	6.21	1.33	1.90	1.42	1.57
Cornell-Dubilier Elec.	33.1	32.4	3.2	2.3	2.01	1.38	.52	.24	.19	.43
Deere & Co.	313.5	388.1	6.3	7.6	2.67	3.96	.63	1.46	1.15	.72
Douglas Aircraft	1,074.6	1,091.3	3.0	2.8	8.96	8.28	2.37	2.13	2.17	1.61
Dresser Industries	230.3	274.0	7.5	7.4	3.97	4.60	1.04	1.09	1.17	1.33
Firestone Tire & Aubber	1,115.1	1,158.8	5.4	5.3	7.43	7.32	1.68	1.75	1.96	1.92
General Shoe	195.1	223.2	3.1	2.6	2.27	2.07	.58	.51	.26	.72
Int. Business Machines	734.3	1,000.4	9.3	8.9	6.55	7.73	1.78	1.61	1.93	2.33
International Harvester	1,252.0	1,171.3	3.9	3.8	3.16	2.88	.51	.68	.75	.93
International Shoe	266.8	266.1	4.4	3.5	3.53	2.86	....	1.58[1]	....	1.28[1]
Lee Rubber & Tire	46.5	48.6	3.4	3.6	1.90	2.09	.40	.44	.58	.67
Marathon Corp.	152.8	155.4	6.0	5.3	2.53	2.29	.38	.46	.51	.94
Morrell (John) & Co.	394.3	340.7	.8	.1	3.60	.62	....	[d] .84[1]	....	1.46[1]
Polaroid Corp.	34.4	47.0[3]	10.6	....	.96	1.40[3]	.60	.37	.35	.13[3]
Stevens (J. P.) & Co.	372.6	417.7	2.2	2.1	2.08	2.21	.52	.58	.38	.73
U. S. Borax & Chemical	50.5	50.9	13.4	10.7	1.47	1.15	....	....	1.03[2]	.12
West Virginia Pulp & Paper	187.6	191.2	8.7	6.2	3.19	2.31	.56	.57	.68	.50
Wilson & Co.	608.9	640.9	1.1	.9	2.83	2.19	....	1.00[1]	....	1.19[1]

d—Deficit.
1—6 months.
2—9 months.
3—Estimated.



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OXYGEN

NEEDED MORE THAN EVER TODAY

5 Leading Companies in the Industry

By CHARLES GRAYSON

● The nation's producers of oxygen and other industrial gases have been enjoying unprecedented prosperity in recent years. From its modest beginning just before the turn of this century with the discovery of the oxyacetylene process by the French chemist Le Chatelier, the oxygen industry – and it can indeed be termed an industry, what with several large companies making a whole line of products—has exerted a profound influence on our nation's industry. And in the course of the past fifty years or so, this industry has sprouted to a point where it today holds down a position of special importance, with much of the missile program dependent on its well-being, as are large segments of the steel and chemical industries.

But more than just producing oxygen and other industrial gases, this industry has yet another ace or two up its sleeve! As the demand for oxygen has mounted, transportation of the gas proved increasingly difficult. Cylinders weighing five times as much as the gas they contained seemed a most impractical method of shipping the increasing volume of oxygen. Liquification of oxygen, first solved by Linde Air Products, Inc., a Union Carbide division, proved to be one answer to the shipping problem. But an even more practical solution for large oxygen users was the development of on-location generating equipment which is now being built by a number of oxygen producers as are other products related to the use of oxygen. It is this development which has done so muct to broaden the horizon of this industry, for not only do such generating facilities enable the oxygen producers like Air Products to cash in on the burgeoning market for this gas, but what is more important, they facilitate the creation of new markets as well.

The Reduction of Air Into Its Components

The title of a leading company in the industry, Air Reduction Company, aptly describes the process of obtaining oxygen and other gases by a reduction of air into its component parts. In the initial stages of the process, the air we breathe is first compressed

and then freed of all traces of oil, moisture and carbon dioxide. Then it is cooled before entering a separation column in a liquid state of –312° F. Under varying conditions of temperature, its components are then "tapped off" in the liquid or gaseous state, and compressed in containers.

Oxygen, one of the most abundant of all elements on the earth's surface is the leading product thus obtained. Distributed either as a liquid in railroad tank cars and tank trucks or as gas in pipelines, trailer trucks and cylinders, oxygen has a rapidly widening variety of industrial uses, all beginning with the basic discovery of the oxyacetylene process which combines high purity oxygen and low cost acetylene gas to produce an extremely hot flame of about 6000° F.

Nitrogen is another product of the Air Reduction process for which markets are expanding. It is used as an inert shielding gas in the manufacture of chemicals, in metals processing, in food preservation, in coaxial communications cables and in electronics. Argon, also a product of the reduction process, is used in increasingly large quantities as a shielding gas in electric arc welding and cutting, and is becoming more important in the manufacture of wonder metals such as titanium and zirconium. Neon gas, used for tubular display lights, and xenon and krypton, which are used for television and electronic tubes, are the other gases obtained in the reduction process. These companies, furthermore, produce a line of other industrial gases including carbon dioxide and acetylene.

The growth in the use of oxygen has been truly phenomenal! In 1940 about 6 billion cubic feet of oxygen with a market value of $24 million or 40 cents per 100 cubic feet were used in the United States. By 1956, consumption had risen to 70 billion cubic feet and the cost had declined to 12 cents per cubic foot, and even less for large quantities. A direct result of the decline in cost, which was due to some basic changes in the techniques of oxygen production, transportation and application, was that industry upped its use of this gas substantially.

Of interest to investors is that the chief profit determinant of the compressed gas industry is volume. Orderly price reductions which create additional volume, therefore are beneficial to the larger producers in the industry Capital costs and indeed related costs such as maintenance and repairs are high for the companies, with about $1 of initial investment in plant required for each dollar of annual sales. But on the other hand, the cost of materials for the production of oxygen is fractional; a principal raw material is air, and only small amounts of chemicals are utilized in the process. The production of other gases such as carbon dioxide, is, on the other hand, costlier.

Widening Markets for Oxygen

Unquestionably, the most glamorous market for oxygen at the present time is related to our defense effort, namely the expanding missile program. Liquid oxygen is a principal component in the propellent for rocket type missiles. The various ICBM and IRBM projects such as the Atlas, Titan Redstone, Jupiter and Vanguard all utilize liquid fuels. In fact, of the five basic missiles now under development with a range of over 1,000 miles, only the Navy's intermediate range Polaris uses solid fuel.

Air Products is a company particularly well entrenched in the missile program, being a leader in the manufacture of liquid oxygen generators and similar equipment for the separation of gases into their constituent elements. Since this liquification involves the creation of extremely low temperatures, Air Products has become a leader in the field of "Cryogenics"—the term for low temperature processing. Government oxygen producing installations now range from stationary generators to mobile units which are wholly contained in trailers to permit rapid transportation. Other generators are used on board guided-missile naval vessels.

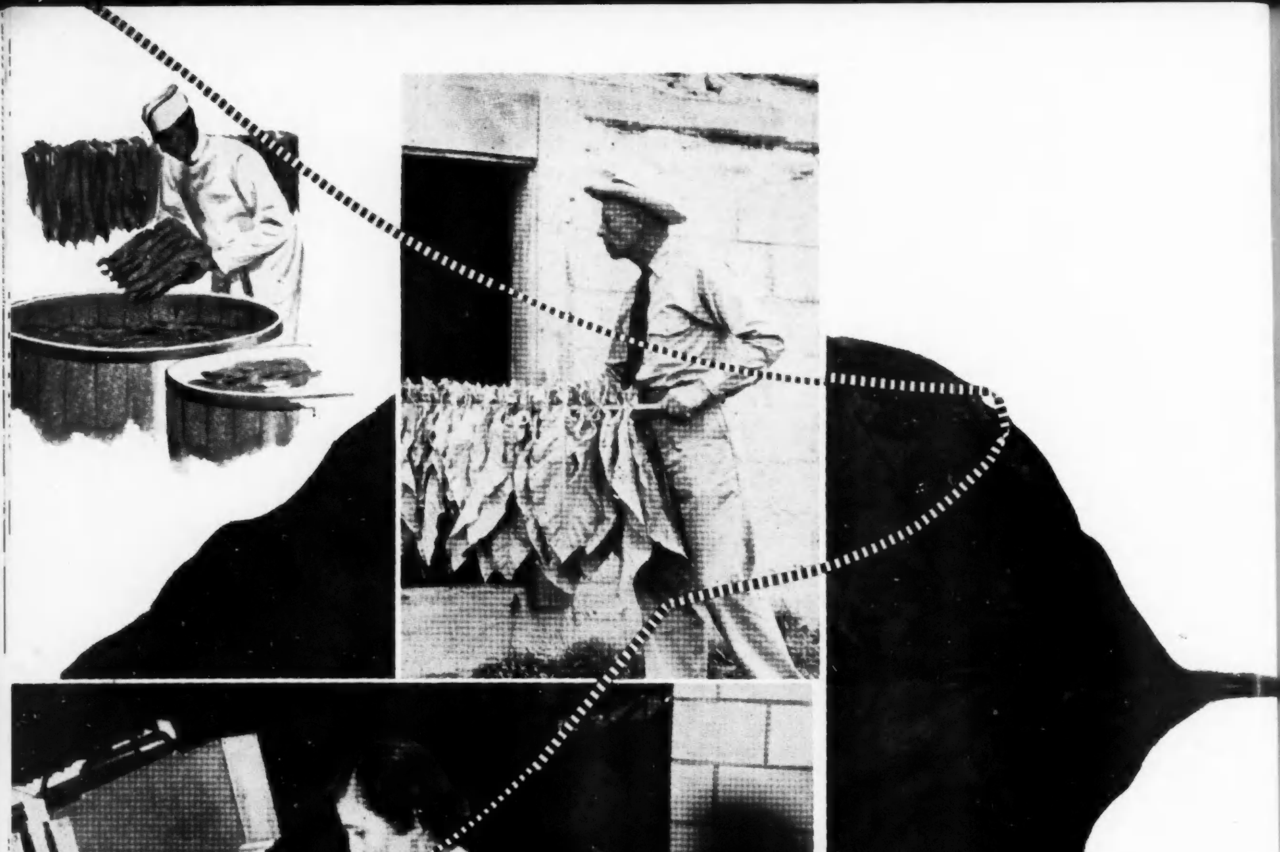
Large quantities of low cost oxygen are of great importance to the steel industry at the present time in view of the urgent need to expand iron and steelmaking capacity with a minimum of capital expenditures. During 1956, the steel industry consumed approximately 24 billion cubic feet of oxygen, or about 34% of the nation's total output. On-location generators produced some 8 billion cubic feet, the balance having been purchased through normal channels. At the present time, 200 or more cubic feet of oxygen are being used for every ton of steel produced, double the 1945 consumption level of 100 cubic feet. The development of new applications points towards substantial further increases in the use of oxygen by the industry.

That the steel industry is successfully finding new uses for oxygen is pointed-up by a new process in which open hearth-quality can be produced by introducing oxygen at very high speeds into converters containing molten iron. Among the advantages of this process are lower capital investment in plants, lower operating expenses and shorter production time. McLouth Steel (*Please turn to page* 596)

Principal Producers of Oxygen Products and Equipment

	1956			1st 9 Months 1956		1st 9 Months 1957					
	Net Sales (Mil.)	Earnings Per Share	Div. Per Share	Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share	Indicated Current Div. Rate	Price Range 1957-58	Recent Price	Div. Yield
Air Products	$ 9.1[1]	$ .90[1]	$ .20[1]	$ 19.2[2]	$1.65[2]	$ 33.0[3]	$1.69[3]	$ .20	37 -24	29	.7%
Air Reduction	169.8	4.19	1.90	123.7	3.21	140.9	3.28	2.50	65¾-45⅝	50	5.0
General Dynamics[4]	1,047.8	4.14	1.60	715.5	2.51	1,133.1	3.50	2.00	68⅝-46¾	64	3.1
National Cylinder Gas Co.	141.1	3.97	1.35	103.5	2.91	115.3	3.42	1.80	50⅜-30	32	5.6
Union Carbide Corp.[5]	1,324.5	4.86	3.15	971.3	3.54	1,045.9	3.44	3.60	124½-90	94	3.8

1—Year ended Sept. 30, 1955.
2—Year ended Sept. 30, 1956.
3—Year ended Sept. 30, 1957.
4—Liquid Carbonic now div. of Gen. Dynamics.
5—Linde Air Products—div. of Union Carbide.



WHICH TOBACCOS WILL LEAD IN 1958?

By DAVID BELL

PRIOR to 1948, changes in the cigarette industry were gradual and rather deliberate as leading brands lost their popularity slowly and newer competitive brands made headway at the same rate. If a cigarette declined in popularity it usually took three or four years for it to regain its lost position.

But in the last few years the disruptions caused by the cancer scare quickened the industry's tempo, leading to radical changes in cigarette packaging and marketing techniques, as companies struggled to maintain their competitive positions.

The year 1957 was a good one for cigarette manufacturers, in fact the best on record. Consumption for the year is estimated at 410 billion cigarettes, a gain of 18 billion over 1956, and an increase of about 5 per cent over 391 billion of 1956. This surpassed the previous peak year 1952, when some 394 billion cigarettes were sold.

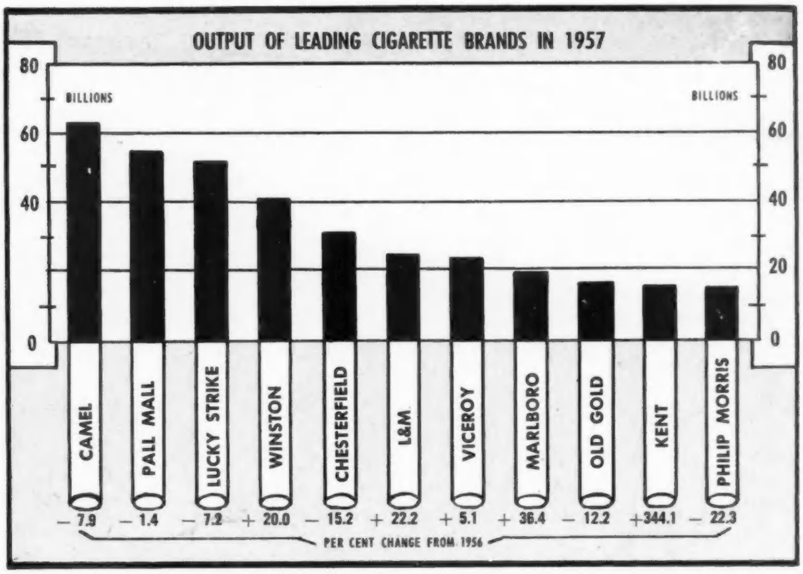
Despite the revival from time to time during the year, of the controversy on the health aspects of the smoking habit, consumption of cigarettes continued to increase. In fact, cigarette sales for the third quarter were up about nine billion units, far and away the best three month period in the history of the industry.

The cigarette industry, long known for its agility in competitive advertising, has demonstrated its flexibility in manufacturing to meet the challenge of the alleged health menace in cigarette smoking by switching manufacturing facilities and advertising emphasis to filter cigarettes. The sharp growth in filter tip brands was responsible for new records having been set in 1957.

The popularity of filter tip cigarettes however, has been accomplished principally at the expense of conventional standard and king size cigarettes. Unit sales of filter-tip cigarettes climbed 48 billion units or approximately 41 per cent to about 40 per cent

of the total cigarette market. Straight regular size cigarettes were down almost 20 billion units and king size brands down 7.4 billion — percentage declines of 12.1 and 8.4 respectively. Regular size cigarettes attained 39 per cent and king size 21 per cent of the total market.

Still another and newer type of cigarette gaining in popularity and one which most manufacturers are now producing is the mentholated-filter tip. Consumption of these newer taste brands increased quarter by quarter last year as they grew in popularity and additional brands were marketed. Mentholated filter tip volume for 1957 is estimated at 21 billion units or approximately 5 per cent of the market.



Another area of growth in the industry was the spread in use of the newer type crush proof box. The trend of sales in supermarkets and vending machines also was accentuated as it is estimated that in 1957 almost 50 per cent of all cigarette sales were through groceries and supermarkets and slightly less than 20 per cent through vending machines. The rapid rise in the number and size of cigarette brands has strained display space in stores and vending machines but a new vending machine displaying and dispensing two dozen brands is now in use somewhat relieving this merchandising problem.

Reynolds Tobacco Co. which has shown the most consistent growth in the industry continued to gain in 1957. The company's filter-tip Winston and menthol filter tip Salem accounted for the sales increase scored by this company. Sales of Camel still the most popular cigarette were down about 8 per cent. However, sales of Reynolds products in the first nine months of last year amounted to $786 million compared with $705 million in the like 1956 period. Sales for the year should be well above the $1 billion mark for the first time in the history of the company and the first time in which any company has challenged American Tobacco's leadership and billion dollar plus sales record. The excellent sales performance of Reynolds will result in proportionately higher net income. For nine months earnings amounted to $5.23 per share compared with $4.39 a year earlier and for the entire year of 1957, earnings are estimated to have risen to $7.15 a share. In 1956 net income equalled $5.91 a share.

In line with its excellent sales and earnings record Directors have increased the dividend rate each year since 1953 and stockholders are hopeful that the current $3.60 per share annual rate will be hiked in 1958.

Lorillard's Sensational Spurt

But while Reynolds (*Please turn to page* 594)

Position of Leading Tobacco Companies

	1956			1st 9 Months 1956		1st 9 Months 1957					
	Net Sales (Mil.)	Earnings Per Share	Div. Per Share	Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share	Indicated Current Div. Rate	Price Range 1957-58	Recent Price	Div. Yield
American Snuff	$ 18.3	$4.05	$2.80	n.a.	$3.40	n.a.	$3.76	$2.90	45¾-39½	43	6.7%
American Tobacco	1,082.5	7.51	5.00	$803.7	5.62	$798.5	5.85	5.00	79¾-69¾	79	6.3
Bayuk Cigars	41.8	1.70	1.00	29.9	1.26	27.6	1.26	1.00	17½-15⅝	17	5.8
Consol. Cigar	72.8	3.86	1.20[1]	53.6	3.02	56.1	3.39	1.40[1]	33 -29¼	30	4.6
General Cigar	45.2	4.14	1.50	30.4	2.68	38.9	3.78	1.80	49⅜-35	48	3.7
Helme, G. W.	9.6	1.68	1.70	n.a.	1.22	n.a.	1.65	1.70	24⅞-22⅝	24	7.0
Liggett & Myers	564.9	6.39	5.00	420.5	4.70	434.4	5.13	5.00	69¼-62¼	70	7.1
Lorillard (P.)	203.2	1.34	1.20	150.6	.91	190.9	1.85	2.00	35 -15⅝	34	5.9
Philip Morris	326.8	4.06	3.00	284.2	2.91	307.9	3.22	3.00	46⅜-38⅝	46	6.5
Reynolds Tobacco "B"	957.3	5.91	3.10	704.4	4.39	785.6	5.23	3.60	66¼-52⅛	64	5.6
U. S. Tobacco	27.7	1.47	1.20	20.7	1.03	20.9	1.22	1.20	25½-17	21	5.7

n.a.—Not available. 1—Plus stock.

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FOR PROFIT AND INCOME

Bull Market

Whether the industrial and rail averages have had their full declines remains conjectural, since the business recession is continuing and investors may be shocked in many instances by the profit shrinkages to be revealed both on 1957 final-quarter and 1958 first-quarter operations. But the utility list is unquestionably in a new bull market founded on constructive money-rate factors and the continuing gradual uptrend in over-all earnings and dividends. For the same reasons, that is also the case for some industrial income stocks. A fair number of utilities and other income equities have already risen above their 1956-1957 bull market highs. At least a moderate further rise is likely. It could be sizable in view of the pressure of funds seeking selective employment, reduced opportunity in many other sections of the market, and the fact that bull markets, both generally and in favored stock groups, usually run to eventual excess.

Selections

The utility investor has a wide range of choices. If you want maximum long-pull growth potentials, you have to accept comparatively low current dividend yields, as in the case, for example, of Florida Power & Light, Houston Lighting and Texas Utilities. There are middle-road choices where the growth rate is more moderate and yields range roughly from 4% to 5%. A few examples are American Gas & Electric, Central & South West, Middle South Utilities and Southwestern Public Service. At present levels. yields in the vicinity of 5.5% to 6% can be had only from utilities subject to below-average growth of earnings. Some examples here are Boston Edison, Interstate Power, New England Electric System, Northern States Power and Public Service Electric & Gas. During recent months a number of utilities have been recommended here. Results so far range generally from satisfactory to good.

California Utilities

Utilities in California have not heretofore been able to benefit adequately from the state's sharp rate of growth in population and economic activity because of tough rate regulation. Recently, how-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Amer. Tel. & Tel. & subs.	3 mos. Nov. 30	$3.27	$3.15
Tishman Realty & Construct.	Year Sept. 30	2.12	1.89
Bendix Aviation Corp.	Year Sept. 30	5.44	5.04
Cuban Atlantic Sugar	Year Sept. 30	3.16	1.64
Walt Disney Productions	Year Sept. 28	2.44	2.01
Virginian Railway	11 mos. Nov. 30	4.77	3.68
Central Illinois Pub. Service	12 mos. Nov. 30	2.43	2.27
South Porto Rico Sugar	Year Sept. 30	5.35	2.67
American Gas & Electric	12 mos. Nov. 30	2.22	2.02
Punta Alegre Sugar	Year Sept. 30	3.19	1.65

ever, the Commission's policy has become decidedly more reasonable in granting rate boosts. The change assures considerable improvement in earnings of leading companies, enhancing market potentials in their stocks. Pacific Lighting, leading distributor of natural gas, obtained major relief. It should boost estimated 1957 net of about $2.40 a share by over 50% this year; and may well permit a boost in the $2 dividend. As a result, the stock is already up from 1957 low of 33⅝ to around the top level of its post-war range; but, at 42, yielding about 4.8% on the present dividend, with potential yield from a higher rate possibly 5.5% to 6%, it is a sound investment.

Others

Southern California Edison has also obtained large relief. It could lift 1958 earnings by something like 30% over 1957's estimated $3 or so a share; and bring at least a moderate boost in the $2.40 dividend. The stock, now around 50 to yield 4.8% on the present rate, has better than average possibilities in the utility bull market. So does Pacific Gas & Electric, which has been granted some rate relief and which probably will get more. Its 1957 net probably was close to $3.50 a share. With 1958 prospects at least moderately promising, some boost in the $2.40 dividend is a possibility late in the year. Around 50, the stock now yields 4.8%.

Metals

Copper stocks stood up well on the recent news of a further cut by domestic producers of 2 cents a pound in the price of the metal to 25 cents. However, a "gimmick" is involved. Copper-state Congressmen have introduced identical bills in the House and Senate to impose a 4-cent import tax at any U.S. price level under 30 cents a pound. Washington reports are that they have a better-than-even chance of being enacted. It would aid U.S. producers moderately, without putting all mines back on a profitable basis. It would be sounder, and more bullish in the long run, however, to let copper find its own level. The basic need is reduction of U.S. and world output; and correction of inventories. Artificial price support cannot contribute to that end. It is still an open question whether copper shares have seen their lows. The same is so of other metals for the same basic reason. There is too much copper, too much aluminum, too much lead, too much zinc.

Steel

At this time operations of the steel industry are around 56% of enlarged capacity, the most depressed level in a long time. According to "trade sources", inventories of finished steel in users' hands were reduced by over 3 million tons in the final 1957 quarter; and by some 6 million tons in 1957 as a whole. They are expected to be cut by another 3 million tons or so in the present quarter; and by much less in the second quarter, within which they should reach "rock bottom", suggesting some gain in shipments in the quarter and more improvement in the second half. It should be noted that last summer "trade sources" thought inventories were low and expected improved steel demand in the late 1957 months. The reverse turned out to be so. On a forward look, much depends on buying by the automobile and other consumers' durable-goods industries. At present, we do not see promise that it will develop, since auto production is being cut back and may have to be cut further in view of disappointing retail car sales. Over-all use of steel in the capital-goods industries is evidently in an unfinished downward trend. On average, steel-company earnings could be down by at least 25% this year, possibly more. On that basis, the stocks, even though down sharply from the 1956-1957 highs, are by no means cheap.

Glut

Instead of being corrected, the over-supply of crude oil and refined petroleum products has so far become a bigger problem for the industry, threatening further erosion of the price structure. Out of sheer necessity, inventory correction will eventually come, as it always has in the past. Meanwhile, we continue to see inadequate appeal in oils for new buying.

Stock Groups

Group action can change considerably from week to week, reflecting fundamentals and transient technical factors. The principal stock groups which have performed better than the market in recent trading up to this writing are: air transport, confectionery, containers, farm machinery, dairy products, department stores, liquor, mail-order stocks, shipbuilding, soft drinks, shipping, textiles, tobaccos and utilities. Groups recently faring worse than the market include aircraft, aluminum, autos, coal, copper, drugs, industrial machinery, office machinery, radio-television, and steel.

Strong

Individual industrial stocks performing better than the market, both recently and for some time, include American Chicle, American Motors, American Tobacco, Borden, American Stores, Corn Products, General Finance, Helme, Jewel Tea, Lorillard, National Biscuit, National Dairy Products, Penick & Ford, Penney, Pillsbury Mills, Sherwin-Williams, Reynolds Tobacco, Standard Brands, United Biscuit, U. S. Gypsum, Hiram Walker and Wilson. As will be seen, they run heavily, even though not exclusively, to good-grade income stocks.

Dubious

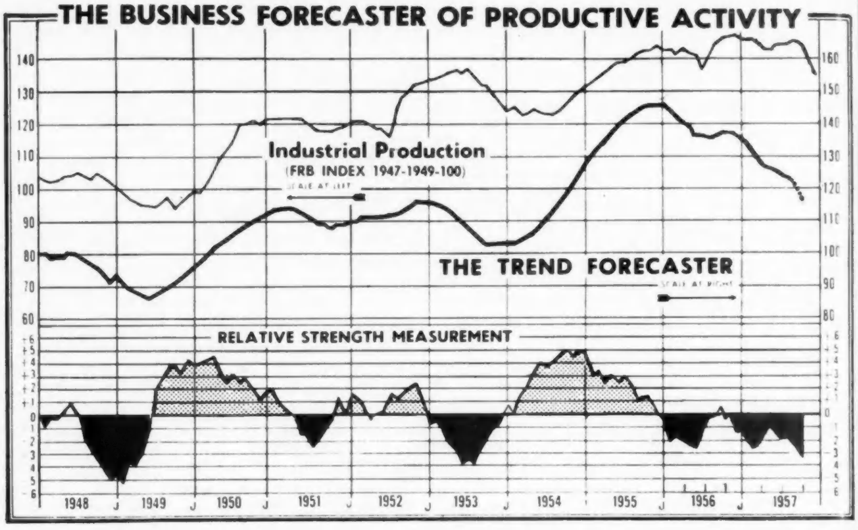
Inability of many stocks to rally much above their prior lows necessarily increases doubt that

(*Please turn to page* 600)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

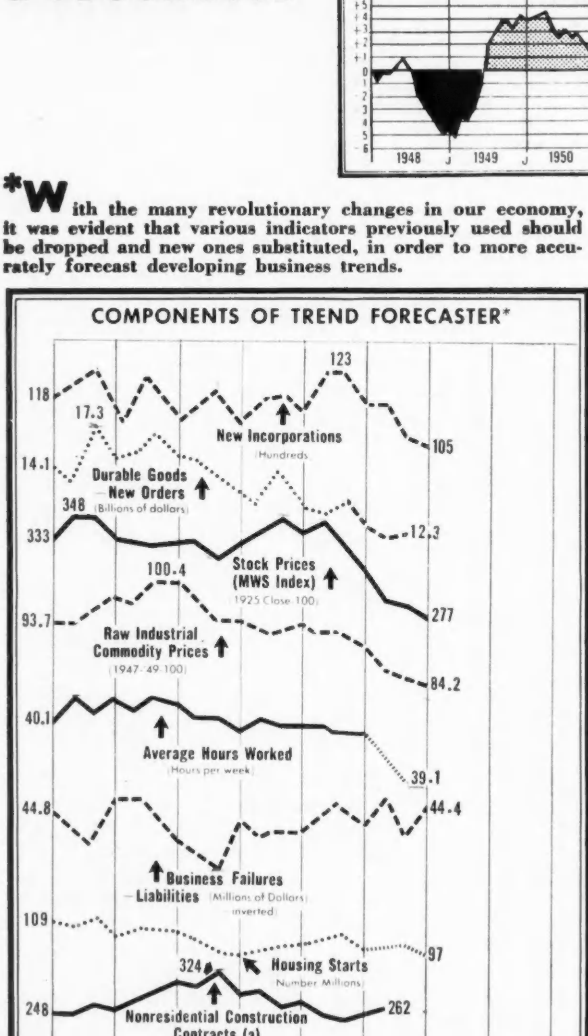
		1957	1956
Eversharp Inc.	9 mos. Nov. 30	$ .84	$1.71
Carrier Corp.	Year Oct. 31	3.17	4.99
Wesson Oil & Snowdrift	Quar. Nov. 30	.42	.59
New York Central R.R.	11 mos. Nov. 30	1.27	4.95
Glidden Co.	Quar. Nov. 30	.52	.87
Pennsylvania R.R.	11 mos. Nov. 30	1.54	2.90
Caterpillar Tractor Co.	11 mos. Nov. 30	4.14	5.55
Brown-Forman Distillers	6 mos. Oct. 31	.54	.97
Armour & Co.	Year Nov. 2	.66	2.96
Woodward Iron Co.	Year Dec. 31	1.57	2.64

the Business



Business Trend Forecaster*

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(*)—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The available figures for the end of 1957 point to a clear downward consensus.

Among the components of the **Trend Forecaster**, new incorporations were declining in December, as they had throughout the last half of 1957. Stock prices likewise fell, continuing a decline begun in August. Industrial commodity prices declined, as they had virtually throughout 1957. Average hours worked fell further in December, after very sharp declines in the two preceding months. Business failures improved in December; they have behaved erratically since early in the year. Housing starts fell slightly, after a few months of mild uptrend. Year-end figures for nonresidential construction and new orders in durables industries were still unavailable at this writing.

Viewed against their longer-term trend, fully seven out of the eight series appeared to be in a declining phase in the last quarter of 1957, and the **Relative Strength Measurement** appears to have run consistently in the critical range below minus 3, for the first time since mid-1953. The relatively sharp decline in the **Trend Forecaster** itself is now paralleled by an equally sharp rate of fall in the Federal Reserve's industrial production index.

Analyst

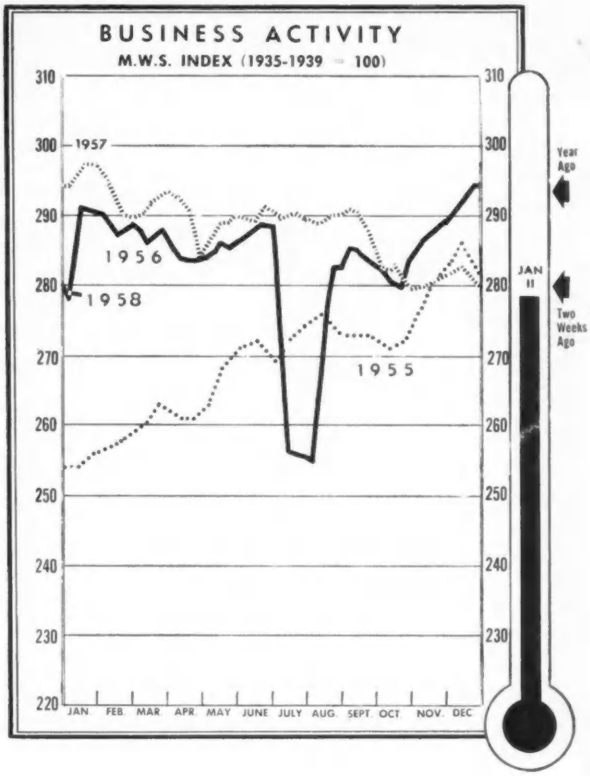
CONCLUSIONS IN BRIEF

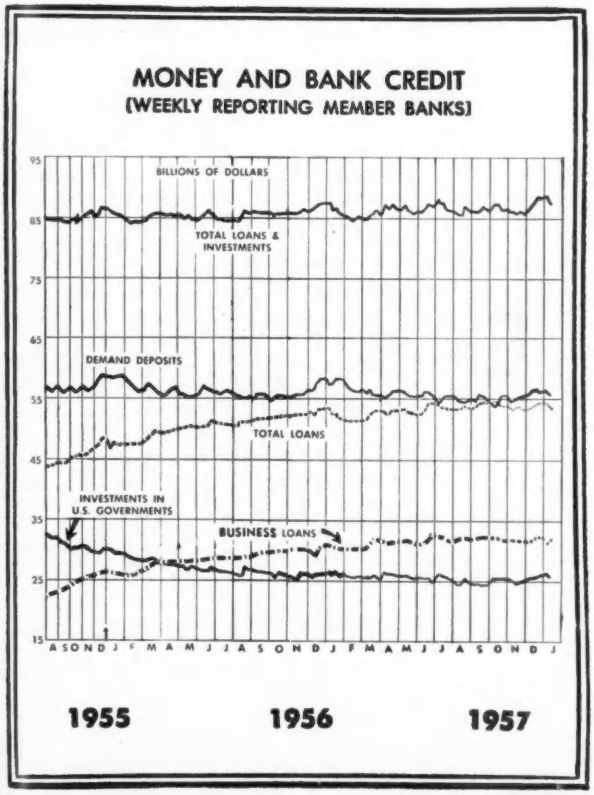
PRODUCTION—Output still declining, notably in automobiles and machinery industries. Further weakening also reported in textiles. Outlook: further slide-off in general production rates through the first quarter.

TRADE—Running fairly strong in soft goods, but weak in autos and other consumer durables. Department store volume about even with a year ago. Outlook: still sluggish downtrend, reflecting rising consumer uncertainty.

MONEY AND CREDIT — Interest rates are heading slowly downward, helped by the Federal Reserve, which has just approved a cut in the discount rate to 2¾% by the Philadelphia Federal Reserve Bank. The prime rate on loans by commercial banks has been reduced, commercial paper rates are declining and bond yields are well below their October peak. Outlook: further easing of credit and continuation of the slow decline in rates.

COMMODITIES — The price level remains sticky. Raw materials now well deflated, further sharp declines unlikely. Processed commodities still holding up. Outlook: sporadic weakness, but no general price break in next two months.





In the past several weeks, the veil of uncertainty that lies across the 1958 business outlook has, if anything, thickened. Business statistics themselves have clearly worsened; but at the same time the administration in Washington has provided very convincing evidence that it is aware of the trend, and dedicated to fighting it.

Preliminary estimates of gross national product for the fourth quarter of 1958 put it at $433 billion (annual rate). In the first quarter of the new year, it is clearly running below that rate. Personal consumption continues slack; inventory liquidation has accelerated; and business plans for capital outlays, which had already been significantly curtailed, are taking a further battering as operating rates and profits fall. Federal government spending can hardly rise much over the near term, in view of the dearth of orders in the last half of 1957, and even state and local spending for construction (roads, schools) is beginning to encounter difficulties as the income of these governments falls. And private construction activity, while certainly not weak, is still far from providing any net stimulus to the business sector as a whole.

Around the areas of intensifying cyclical weakness, the Federal government is now building segments of a retaining wall. Money has been made somewhat easier, and doubtless will get easier still over the next several months. Home mortgage terms on FHA-guaranteed loans have been relaxed substantially; interest rates on these loans may well subside a little in the near future. Stock margin requirements have been reduced to stimulate the market, with the

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Nov.	139	141	146
Durable Goods Mfr.	1947-'9-100	Nov.	153	154	165
Nondurable Goods Mfr.	1947-'9-100	Nov.	128	130	129
Mining	1947-'9-100	Nov.	124	127	130
RETAIL SALES*	$ Billions	Nov.	16.6	16.7	15.9
Durable Goods	$ Billions	Nov.	5.5	5.6	5.5
Nondurable Goods	$ Billions	Nov.	11.1	11.1	10.4
Dep't Store Sales	1947-'9-100	Nov.	126	120	131
MANUFACTURERS'					
New Orders—Total*	$ Billions	Nov.	26.2	26.2	30.0
Durable Goods	$ Billions	Nov.	12.3	12.2	15.8
Nondurable Goods	$ Billions	Nov.	14.1	13.9	14.2
Shipments*	$ Billions	Nov.	28.1	27.4	28.5
Durable Goods	$ Billions	Nov.	13.9	13.5	14.3
Nondurable Goods	$ Billions	Nov.	14.1	13.9	14.2
BUSINESS INVENTORIES, END MO.*	$ Billions	Oct.	91.0	91.3	87.8
Manufacturers'	$ Billions	Oct.	54.1	54.2	51.8
Wholesalers'	$ Billions	Oct.	12.8	12.8	12.7
Retailers'	$ Billions	Oct.	24.2	24.4	23.3
Dept. Store Stocks	1947-'9-100	Oct.	143	143	142
CONSTRUCTION TOTAL	$ Billions	Nov.	4.1	4.5	4.0
Private	$ Billions	Nov.	3.0	3.1	2.9
Residential	$ Billions	Nov.	1.5	1.5	1.5
All Other	$ Billions	Nov.	1.5	1.6	1.4
Housing Starts*—a	Thousands	Nov.	1,010	1,000	1,027
Contract Awards, Residential—b	$ Millions	Nov.	930	1,165	900
All Other—b	$ Millions	Nov.	1,441	1,448	1,477
EMPLOYMENT					
Total Civilian	Millions	Nov.	64.9	66.0	65.3
Non-Farm	Millions	Nov.	52.8	53.1	53.0
Government	Millions	Nov.	7.5	7.5	7.3
Trade	Millions	Nov.	11.8	11.7	11.7
Factory	Millions	Nov.	12.7	12.9	13.4
Hours Worked	Hours	Nov.	39.2	39.5	40.5
Hourly Earnings	Dollars	Nov.	2.10	2.09	2.03
Weekly Earnings	Dollars	Nov.	82.32	82.56	82.22
PERSONAL INCOME*	$ Billions	Nov.	345	346	335
Wages & Salaries	$ Billions	Nov.	239	240	233
Proprietors' Incomes	$ Billions	Nov.	51	51	51
Interest & Dividends	$ Billions	Nov.	32	32	30
Transfer Payments	$ Billions	Nov.	22	22	19
Farm Income	$ Billions	Nov.	15	15	16
CONSUMER PRICES	1947-'9-100	Nov.	121.6	121.1	117.8
Food	1947-'9-100	Nov.	116.0	116.4	112.9
Clothing	1947-'9-100	Nov.	107.9	107.7	107.0
Housing	1947-'9-100	Nov.	126.8	126.6	123.0
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Nov.	105.9	106.5	107.0
Bank Debits*—g	$ Billions	Nov.	78.6	81.7	78.8
Business Loans Outstanding—c	$ Billions	Nov.	31.5	31.8	30.4
Instalment Credit Extended*	$ Billions	Nov.	3.6	3.5	3.5
Instalment Credit Repaid*	$ Billions	Nov.	3.4	3.4	3.2
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	4.8	3.1	4.8
Budget Expenditures	$ Billions	Nov.	5.8	6.5	5.7
Defense Expenditures	$ Billions	Nov.	3.4	3.6	3.5
Surplus (Def) cum from 7/1	$ Billions	Nov.	(6.9)	(5.9)	(5.4)

PRESENT POSITION AND OUTLOOK

apparent intention of forestalling the psychological weaknesses that would be associated with further capital losses. And the Federal budget itself provides an obvious deficit stimulus, on any but the most blissfully optimistic assumptions as to the revenue side of the budget.

The issue of 1958—that is, progressive government stimulation versus progressive cyclical weakness in the private sector—is thus already joined. **For the next several months, the momentum of the downtrend in private spending seems to obviate any quick pickup in total activity.** With respect to the last half of the year, however, the issue is now in doubt; both government and business will be watching the statistical reports closely indeed for the next several months.

* * *

GROSS NATIONAL PRODUCT — the large statistical aggregate that measures the rate of national economic activity—fell sharply in the final quarter of 1957. The single sector most seriously affected was business demand; outlays for new productive equipment were off slightly (they will decline more sharply in the current quarter), and business demand for inventory was substantially lower. Personal spending also declined slightly, as falling demand for both hard goods and soft goods more than offset the continued postwar rise in consumer expenditures for services. Government spending, of federal, state and local governments combined, showed little change from the preceding quarter.

While the total rate of spending subsided, it may be interesting to note that the aggregate final demand of consumers, business and government, combined, fell off only very slightly; most of the fourth-quarter decline was in inventory demand. This is encouraging; total activity cannot continue to subside if end-product demand holds up. On the other hand, three months of firm end-product demand can hardly cure a recession. (This *is* a recession, and all the pleasant euphemisms—adjustment, correction, etc.—do not alter the fact.) It would take several more months of firm or rising spending on the part of consumers and government to rebuild badly weakened areas of business psychology, and arrest the downtrend in business.

* * *

THE FEDERAL BUDGET—From a great distance, it gives the appearance of being balanced for fiscal 1959. But it is balanced only by virtue of heroic and on the whole unrealistic assumptions concerning the government's probable income in the year. The budget assumes that corporate

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 III Quarter	1957 II Quarter	1957 Quarter	1956 III Quarter
GROSS NATIONAL PRODUCT	439.0	434.3	429.1	416.7
Personal Consumption	283.6	278.9	276.7	268.6
Private Domestic Invest.	65.5	65.0	62.7	65.5
Net Foreign Investment	3.2	3.5	4.1	2.0
Government Purchases	86.7	86.9	85.6	80.6
Federal	50.6	51.1	50.3	47.2
State & Local	36.1	35.8	35.3	33.0
PERSONAL INCOME	346.5	342.4	337.7	328.7
Tax & Nontax Payments	43.6	42.9	42.2	39.8
Disposable Income	302.9	299.5	295.5	288.8
Consumption Expenditures	283.6	278.9	276.7	268.6
Personal Saving—d	19.3	20.6	18.9	20.3
CORPORATE PRE-TAX PROFITS*		42.0	43.9	40.8
Corporate Taxes		27.4	22.4	20.8
Corporate Net Profit		20.5	21.5	20.0
Dividend Payments		12.5	12.1	12.1
Retained Earnings		8.0	9.1	7.9
PLANT & EQUIPMENT OUTLAYS	37.8	37.0	36.9	35.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Jan. 11	278.8	278.9	294.7
MWS Index—per capita*	1935-'9-100	Jan. 11	210.2	210.4	226.0
Steel Production	% of Capacity	Jan. 13	57.0	56.1	96.4
Auto and Truck Production	Thousands	Jan. 18	137	146	178
Paperboard Production	Thousand Tons	Jan. 11	275	54†	278
Paperboard New Orders	Thousand Tons	Jan. 11	264	90†	298
Electric Power Output*	1947-'49-100	Jan. 11	230.3	228.0	226.8
Freight Carloadings	Thousand Cars	Jan. 11	569	472	681
Engineering Constr. Awards	$ Millions	Jan. 16	220	171	335
Department Store Sales	1947-'9-100	Jan. 11	108	95	107
Demand Deposits—c	$ Billions	Jan. 8	56.4	56.9	57.8
Business Failures	Number	Jan. 11	324	203	256

†Four days ending January 4.

PRESENT POSITION AND OUTLOOK

profits before taxes will be about $42 billion in calendar 1958, or about equal to its average in calendar 1957. But the current rate of profits is certainly well below $42 billion, and perhaps no higher than $38 billion. If the corporate profit rate averages $38 billion, the loss in federal revenue will be about $2 billion.

Moreover, the budget assumes a level of personal income of about $352 billion; the rate is now about $340 billion. If the current rate of income is maintained in calendar 1958, federal revenues from the personal income tax are likely to be more than $1 billion below the budgeted revenue from this source (and receipts from excise taxes are also likely to be less than the budgeted amount). **In realistic terms, therefore, the fiscal 1959 budget is currently out of balance by more than $3 billion!**

* * *

DEFENSE ORDERS—They are reported to be pouring out of the Defense Department in a new burst, and beginning to shore up the backlog position of metalworking industries generally. In the first four months of fiscal 1958, the Defense Department let orders at about two-thirds the authorized rate; the rate of ordering can, theoretically, average about 80% higher over the next several months. The difference is several billions in orders every month—unquestionably enough to have a real impact on business psychology in the defense and related industries.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	'57-'58 Range High	'57-'58 Range Low	1958 Jan. 10	1958 Jan.17
300 Combined Average	346.6	270.4	283.9	292.3
4 Agricultural Implements	282.4	181.9	196.5	211.0
3 Air Cond. ('53 Cl.—100)	122.8	82.7	87.8	91.3
9 Aircraft ('27 Cl.—100)	1388.8	882.6	1070.6	1060.8
7 Airlines ('27 Cl.—100)	1022.5	581.5	650.7	715.7
4 Aluminum ('53 Cl.—100)	464.5	253.4	253.4	261.0
6 Amusements	172.6	119.0	129.7	132.1
8 Automobile Accessories	384.4	284.7	310.3	313.2
6 Automobiles	54.3	38.1	41.1	42.7
4 Baking ('26 Cl.—100)	29.7	26.3	29.0	29.6
4 Business Machines	1285.3	863.7	898.2	907.0
6 Chemicals	652.3	496.7	524.9	535.2
5 Coal Mining	25.1	16.8	19.4	19.3
4 Communications	106.0	83.1	85.7	86.5
9 Construction	126.8	100.7	107.5	110.7
7 Containers	799.9	656.5	707.3	721.0
7 Copper Mining	307.6	179.7	184.6	188.3
2 Dairy Products	121.4	103.8	117.9	121.4H
6 Department Stores	89.2	75.1	79.6	80.4
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	217.2	219.6
6 Elec. Eqp. ('53 Cl.—100)	244.4	183.3	201.5	207.2
2 Finance Companies	591.1	525.0	568.8	591.1H
6 Food Brands	280.2	239.8	260.5	263.0
3 Food Stores	188.9	153.8	182.2	184.0

(Nov. 14, 1936 Cl.—100)	'57-'58 Range High	'57-'58 Range Low	1958 Jan. 10	1958 Jan.17
100 High Priced Stocks	236.9	185.8	189.7	193.6
100 Low Priced Stocks	415.9	311.7	334.7	347.1
5 Gold Mining	726.2	515.0	530.5	551.1
4 Investment Trusts	184.5	137.5	144.4	149.9
3 Liquor ('27 Cl.—100)	1094.5	855.7	913.4	931.3
8 Machinery	523.4	338.6	357.6	364.4
3 Mail Order	174.6	135.2	144.7	151.4
4 Meat Packing	142.6	103.5	127.0	127.0
5 Metal Fabr. ('53 Cl.—100)	198.3	131.6	142.2	146.2
9 Metals, Miscellaneous	420.9	263.1	276.3	281.5
4 Paper	1060.1	789.9	841.8	850.2
22 Petroleum	914.4	642.6	642.6	661.9
21 Public Utilities	266.6	236.5	261.4	266.6H
7 Railroad Equipment	91.4	54.8	59.7	64.7
20 Railroads	72.7	41.7	43.0	48.8
3 Soft Drinks	509.8	432.7	454.4	476.2
12 Steel & Iron	393.0	235.8	249.3	258.9
4 Sugar	116.9	96.9	105.7	104.7
2 Sulphur	926.7	521.2	543.4	554.1
10 Television ('27 Cl.—100)	36.0	27.2	29.4	29.9
5 Textiles	149.9	96.7	106.9	111.8
3 Tires & Rubber	197.6	152.8	157.8	157.8
5 Tobacco	114.1	87.0	111.9	114.1H
2 Variety Stores	298.8	219.5	241.5	250.2
17 Unclassif'd ('49 Cl.—100)	168.9	137.2	145.4	149.5

H—New High for 1957-1958

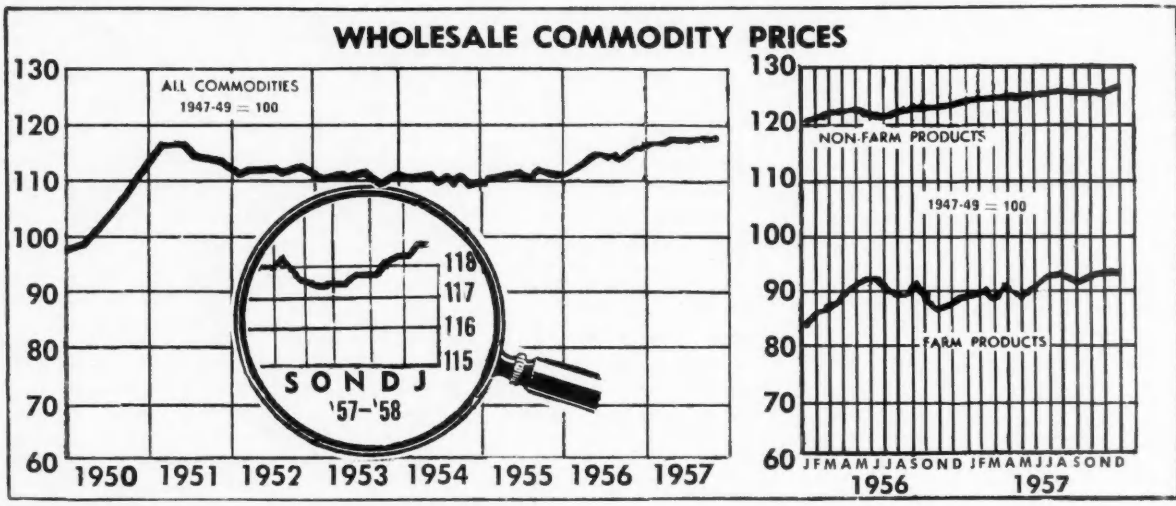
Trend of Commodities

SPOT MARKETS — Slight gains were registered by the Bureau of Labor Statistics' index of 22 sensitive commodities in the two weeks ending January 17 and the index rose 0.2%. Foods again were responsible for the advance, while raw industrial materials, on the other hand, continued weak. In the latter category, metals led the decline, with lower prices for copper scrap, lead scrap and tin. The general weakness in industrial raw materials reflects the continuing weight of inventory liquidation and excessive output.

The main body of commodities, meanwhile remains firm. The broad BLS weekly wholesale price index gained 0.3% in the first two weeks of 1958, to hit a new peak of 118.7. The advance was concentrated in farm and food prices while all others were little changed.

FUTURES MARKETS — Most commodity futures were lower in the two weeks ending January 17. Weaknesses encompassed a wide area, including grains, soybeans, cotton, wool tops, sugar, coffee, rubber and various metals. The only real strength was in cocoa which advanced more than 2 cents during the period. The Dow-Jones Commodity Futures Index lost 1.78 points, to close at 156.39.

Wheat futures all declined, the March option giving up 3½ cents. There are indications that anticipated tightness in "free" wheat this season will not be as serious as had been expected. Exports may lag because of increased competition from the big Canadian wheat surplus and redemptions from the loan could reduce the total impoundings. In these circumstances, further weakness may be seen in wheat futures.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Jan. 14	118.7	118.4	116.9	60.2
Farm Products	Jan. 14	93.8	93.1	89.3	51.0
Non-Farm Products	Jan. 14	125.9	125.8	125.2	67.0
22 Basic Commodities	Jan. 17	85.0	84.8	91.7	53.0
9 Foods	Jan. 17	87.1	85.6	83.8	46.5
13 Raw Ind'l. Materials	Jan. 17	83.4	84.1	97.5	58.3
5 Metals	Jan. 17	85.7	86.7	120.1	54.6
4 Textiles	Jan. 17	78.3	78.2	85.1	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS
1923-1925 AVERAGE—100

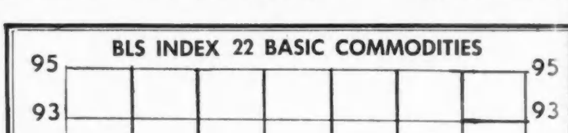
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1957-8	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	148.4	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES
AVERAGE 1924-1926—100

	1957-8	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year		162.7	166.8	189.4	105.9	84.1
Close of Year	153.8	163.1	147.9	176.4	96.7	74.3



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Simmons Company

"The indicated exceptionally high yield on Simmons Co. stock intrigues me. Will you please report earnings and prospects for the company."
C.M., South Bend, Indiana

Simmons Co., world's largest producer of bedding and sleep equipment, reported that gross sales for 1957 would be approximately $128 million, compared with $140 million for the previous year.

1957 was a year of transition for the company in which plans for future expansion were formulated and put in motion. In line with this planned expansion, the company will introduce a number of new and diversified products in 1958 and is likewise adding several new plants to take care of needed manufacturing facilities.

Despite the reduction in sales, the firm paid dividends totalling $3.00 a share on the common stock during 1957, which compared favorably with $3.10 paid in 1956 when bedding sales were the highest in the company's history. The company has never failed to pay a dividend during its 87 years of existence, except for the depression years of 1930-32. Recent annual earnings were the following: 1954 $4.18 per share, 1955 $5.31, 1956 $5.17, 1957 $4.20 estimated.

In January 1958, the company introduced a new and revolutionary orthopedic-type mattress which Simmons stated was the "first major innovation by the industry in 18 years", and the development of which was aided by leading orthopedic surgeons. In February, Simmons will introduce for the first time in its history, a complete new line of bedding for children and later this year, plans a new line of living room furniture.

The firm is building a new plant at Munston, Indiana, which is expected to be completed and in production by the middle of 1958. Simmons has also acquired additional manufacturing facilities with the recent acquisition of a factory in LaGrange, Illinois.

The addition of these new facilities will bring the total number of manufacturing plants now owned and operated by Simmons in this country to 11.

Sales in the firm's contract division which serves hotels, motels, hospitals, ships and other institutions, showed a sharp gain and were up substantially over 1956.

A broad and continuing research program investigating the physiological aspects of sleep which is adding much to man's knowledge of this little understood phenomenon is currently being sponsored by the company, through a grant to the Sleep Research Foundation.

Quarterly dividends of 70 cents per share plus a 20 cent year-end extra made total disbursements in 1957 of $3.00 per share.

While competition in the field is increasing, the outlook over coming months appears favorable.

Automatic Canteen Co. of America

"I am a recent subscriber to your publication and this is my first inquiry. Please report on operations of Automatic Canteen Co. of America."
S.M., Memphis, Tenn.

Automatic Canteen Co. of America is a leader in the field of vending machines. Its machines dispense cigarettes, confections, gum, nuts and beverages in plants and public places.

Sales and earnings of Automatic Canteen Co. of America during 1957 increased substantially over 1956 and established new record highs for the company. For the fiscal year ended September 28, 1957, consolidated sales, rentals and other income totalled $112,889,096, an increase of $8,646,881, or 8.3% over the $104,242,215 reported for the year ended September 29, 1956.

Consolidated net earnings in 1957 fiscal year came to $2,952,576, an increase of 23.4% over the $2,392,975 reported for 1956. Net earnings per share increased to $3.02 from $2.68 in 1956. The number of common shares outstanding also increased from 892,180 to 976,432, chiefly as a result of the 5% stock dividend.

The improvement in profit ratios was attributed to operating efficiencies and higher sales resulting from the larger capacity of new Canteen vendors and from improved earnings.

Net earnings after provision for depreciation amounted to $3.95 per share in 1957, as compared with $3.90 in 1956.

The company introduced a large number of new model machines last year. These included a new cigarette vendor, and improved vendors for candy, cigarettes, pastry and cold drinks. END

Keeping Abreast of Corporate Developments

Allied Chemical & Dye Corp. through its Barrett Division has started production of gypsum board products in a new facility in Edgewater, New Jersey, that is said to provide for a fully automatic, one-step operation.

According to the president of Barrett, the plant will be capable of operating on a three shift, round-the-clock basis and will be able to turn out 800,000 sq. ft. of product in every 24-hour period. The operation is controlled by modern mechanical proportioning devices. The plant's annual production goal, a quarter of a billion square feet, would be enough to fill the gypsum board needs of 40,000 homes, or for an entire city the size of Syracuse, New York.

Dow Chemical of Canada Ltd. and Rio Tinto Mining Co. of Canada Ltd. have formed a new company, Rio Tinto-Dow, Ltd. The new company will initially concentrate on the production of thorium and rare earths from by-product materials of uranium mining operations in the Blind River area of Ontario. The company will also explore other opportunities in these fields.

Dow Chemical of Canada, Ltd., is a wholly owned subsidiary of the Dow Chemical Co.

DuPont Co. of Wilmington, Delaware has developed a new household sponge, which combines both abrasive and absorbent materials in one unit. National distribution is now underway. Developed as the result of a two year research program by the company's Film Department, the "Combo" synthetic sponge is constructed of a layer of plastic foam, joined to a layer of cellulose sponge by a special water-resistant adhesive. The combination of materials provides dual functions—the plastic side scours and scrubs, while the cellulose side absorbs and wipes.

El Paso Natural Gas Products Co., a subsidiary of **El Paso Natural Gas Co.,** has contracted to sell 15 million pounds of styrene annually to Seamco Chemical Co., an affiliate of the Rexall Drug Co.

The styrene will come from El Paso Natural Gas Products plant now being built near Odessa, Texas. Scheduled for completion by early spring it will have a capacity of 40 million pounds annually. General Tire & Rubber will buy 25 million pounds annually for use in the manufacture of synthetic rubber at its plant near Odessa.

Seamco Chemical and El Paso Natural Gas Products Co. also will participate jointly in a research program aimed at developing new and improved plastics. A research laboratory will be constructed at Holyoke, Mass., for this purpose.

North American Aviation Inc. and Phillips Petroleum Co. plan formation of a company to be named Astrodyne, Inc. to specialize in the missile rocket power field. Phillips and North American Aviation will unite their activities in the vital and expanding field of solid propellents for rocket engines and aeronautical power units.

One aim cited by the officials of the new company is to advance more rapidly the building of rugged, simple, very powerful solid propellent devices which can promptly launch a missile.

Astrodyne, Inc. will have its headquarters and operations at Air Force plant 66 near McGregor in Central Texas where Phillips Petroleum has conducted solid propellent research, development and manufacturing for the Air Force since 1952 and currently employs about 900 people. A manufacturing line at this plant produces solid propellent Jato (jet assist take-off) motors.

North American Aviation has been engaged in the development and production of large liquid-propelled rocket engines since 1946 and its Rocketdyne division is now delivering engines for the Atlas, Thor, Jupiter and Redstone ballistic missiles from plants in California, and Missouri.

Sylvania Electric Products Inc., has introduced a movie projector bulb which the company says, will make possible redesign of present home projectors and reduction in their cost.

According to Sylvania, the bulb is smaller than conventional projector bulbs, gives off less heat and will eliminate the need for condensing lenses and a reflector in the projectors.

A Budget Message Designed to Please Everyone

(*Continued from page* 563)

request is $1.8 billion, to which should be added $865 million of "defense support" funds to help friendly nations maintain the armed strength the Pentagon regards essential to world defense.

Foreign Economic Policy

Another major feature of the President's foreign economic policy involves a $2 billion allowance for the Export-Import Bank, and $625 million to be added to the Development Loan Fund set up last year with $300 million capital. Requests from other nations to share in this Fund exceed $500 million. The President has told Congress he probably will need $200 million more to carry out commitments to supply intermediate-range ballistic missiles to NATO allies. Britain, France, and Turkey lead the list. Between $20 and $30 million will be needed to finance monetary exchanges and carry out reconversion guarantees.

The President's Economic Report

Closely linked to the Budget Message in point of time and purpose is the "Economic Report of the President." The document is submitted each year under the President's signature, but it is in essence, the product of the Council of Economic Advisers.

Since federal revenue outlays and income are dependent on prevailing economic conditions, the report is actually the groundwork for the Budget Message, and although it is delivered later it offers important clues to the administration's thinking on key economic issues and provides a ready check on how realistic budget estimates actually are.

In this year's Report, the most important between-the-lines factor that emerges is the obvious concern the members of the Council have over the economic state of the nation. The President understandably chose to accent the positive in his message, not only for political reasons, but because he recognizes the dangers inherent in destroying public and business confidence. Nevertheless, the negative side is also there. In condensing the report the President used this language: "The past year was a prosperous one, *despite a decline in the closing months.* Over 65 million persons were employed, 300,000 more than in 1956. The Nation's output of goods and services totaled $434 billion, and personal income was $343 billion. Both were 5% larger than in the preceding year. *A considerable part of these increases, however, reflected higher prices. In the final quarter of the year, gross national product was about 1½ percent below the peak reached in the first quarter. Personal income after taxes declined one-half of one per cent, and personal consumption expenditures somewhat less. In December, however, unemployment mounted to 5.2 percent of the civilian labor force, compared with 4.3 percent in September.*" (Editor's italics)

Mr. Eisenhower then looked ahead to better business conditions in 1958, promising government assistance to this end, but he documented his optimism about the future by reviewing the past. He cited the fact that the domestic market for goods and services has been doubled in each quarter century era, but failed to relate this long range trend to the current declining rate of personal income, the definite slowdown in consumer spending and the recent acceleration in the number of unemployed.

In commenting on business expansion, the President expressed no alarm or surprise at the sharply reduced rate of capital expenditures, and implied instead that where slack appeared, the availability of money, and the activities of states and localities would step into the breach. Ignored however, was the difficulties these governmental units are already encountering in meeting existing obligations, and the cold fact that several states have already taken steps to reduce outlays in 1958.

Budget Balancing Will Be Difficult

In light of the actual state of business conditions as reflected both in published economic data and in the obvious reservations of the Council of Economic Advisers, balancing the budget will be a neat trick. Except for the specific request for a one year extension of excise taxes on automobiles and parts, cigarettes, liquors and wines, Mr. Eisenhower asked for no new revenue-producing legislation. On the other hand, some minor proposals, such as fast writeoffs on used property, and special tax considerations for closely held corporations, will cut into the Treasury's tax take.

But of greater significance is the battles the President can expect from the Congress over his projected cuts for health and welfare, river and harbors, and others which have local importance. How these battles will fare will be discussed more fully in a full article in a subsequent issue of The Magazine of Wall Street. Also the article will delineate the vital election year issues and the positions both major parties can be expected to take concerning them. —END

Which Tobaccos Will Lead In 1958?

(*Continued from page* 583)

challenged American Tobacco for the leadership the most sensational performance in the history of the cigarette industry was scored by **Lorillard** through exploitation of its micronite filter-tip Kent cigarette.

In 1956 with sales having sagged some 30 per cent below 1955 levels and with earnings at the lowest point in more than a decade, directors elected Mr. Lewis Gruber to head the company. By means of extensive promotion, expanded national distribution and a highly favorable report published in Readers Digest which alleged Kent contained less nicotine and tar than other brands, sales climbed sharply. In the third quarter, Lorillard's sales rose more than 65 per cent. For the nine month period sales were $190 million as compared with $150 million in the same 1956 span. Profit margins were also aided by a price increase in the company's Old Gold brand in June and net income rose to $1.85 a share compared with 91 cents in the same 1956 period and $1.34 in the entire year of 1956. Management is now concentrating on improving sales of the "Old Gold" brand through more attractive packaging, and a completely new type of blend.

American Still Leads

Making steady gains in the non-filter field, **American Tobacco** through its Pall Mall and Lucky Strike brands (second and third largest sales) maintained its position as the top company in sales in the tobacco industry. Total output of cigarettes for 1957 for the company are estimated at 126 billion units or 28.4 per cent of the national total. This compares with 128.9 billion or 30.5 per cent of total output in 1956. The reason for the lag in American's sales in a year when eight of the ten leading cigarette companies will have reported gains, is due primarily to its failure to attain its potential in the filter tip market. In 1954 the filter tip Tareyton was introduced to supplement the cork-tip brand and in 1956, Hit Parade was put on the market. As in the case of its non-filter brands, American emphasizes the tobacco quality of Hit Parade. It is possible that in order to maintain its premier position American will exploit its filter tip brands fully and in the manner likely to attain the same position in this group in 1958 as it holds in the non-filter brands. Therefore, we look for increasing emphasis on filters and a possible good gain in overall sales in the year ahead.

For the nine months ended September 30, sales were $6 million under the $804 million of 1956. However, profit margins were widened (American has the lowest per pack advertising costs in the industry) and net income rose to $5.85 a share versus $5.62. For the year sales should equal the $1,082 billion of 1956 and earnings are estimated at $8.25 a share compared with $7.51 the year before. Therefore, in spite of the fact that cigarette sales declined, net income was the best in many years. If the company can obtain a larger share of the filter market, 1958 could be a very pleasant year for shareholders of American.

Regular Brands Slip

The divergent trends in the cigarette industry of increasing filter-tip sales and declining sales of regular tip cigarettes was evident in the operations of **Liggett and Myers**. Total output for 1957 is estimated at 65.5 billion cigarettes, a shade off the 65.6 billion output of 1956. Standard and King-size Chesterfield are estimated to have fallen 15.2 per cent but L & M filter tip gained more than 22 per cent. In May of 1957 the new mentholated filter tip Oasis was introduced and by fall has been distributed nationally. Exploitation of this cigarette and a continued increase in sales in the L & M brand should result in improved sales and earnings in 1958.

For the first nine months of 1957 sales were $14 million higher than the $421 million of 1956. Earnings also were better and rose to $5.12 a share up from $4.81 in the same 1956 period. Earnings for the entire year are expected to equal $7 a share, compared with $6.39 a year earlier. Results in 1958 will depend mainly on the success of newer filter-tip brands. We see Liggett & Myers at least holding its own, sales and earning-wise.

The statistics on **Philip Morris** sales are similar to those of other cigarette manufacturers but comparisons are more dramatic. For instance, the conventional tip Philip Morris brand registered a 22 per cent decline in sales second only to Reynold's "Cavalier" in percentage drop but the company's Marlboro scored the second sharpest climb in sales of established filter tips. Also, sales of Parliament rose more than 11 per cent. In the closing weeks of 1957 sales of Marlboro were reported to have picked up sharply and a newer blend of Parliament which was being tested in several areas showed sales more than triple the old blend. If the sales improvement in Marlboro can be maintained and if the higher sales rate on the newer Parliament can be held when the brand is distributed nationally, Philip Morris could register substantial gains in 1958.

Philip Morris increased its sales by more than 8 per cent in the first nine months and its earnings by about 10 per cent. Earlier in the year in a diversification move, a new subsidiary Milprint Inc., a flexible packaging materials company was acquired. The concern has an annual sales rate of about $60 million. Total sales for Philip Morris for 1957 likely exceeded $400 million about 340 million of the total coming from cigarette and tobacco sales. Earnings should total $4.4 against $4.06 in 1956. Overall growth in cigarette consumption, improving sales in Marlboro and the possibility that Parliament can score sharp gains indicate that Philip Morris could do substantially better this year.

Cigar Makers Score Small Gain

Despite the rapid rise in population, cigar smoking has shown only small year to year gains. It was expected that with the health controversy on cigarettes prominent from 1953 to date, sales of cigars would climb. This supposition was accented by a statement by the American Cancer Society in June 1955 to the effect that " there is no significant association between cigar smoking and lung cancer." Instead of increasing sharply, sales of cigars have climbed gradually. The year 1956 was one of the best for the cigar industry as consumption

amounted to about 6.2 billion units. Output for 1957 should be slightly better than that figure.

In addition to trying to expand their share of the smokers dollar, cigar manufacturers are endeavoring to improve their earnings by the use of reconstituted tobacco. Presently homogenized tobacco is being used as a binder or inner wrapping of the cigar on several brands. General Cigar, the leader in the use of this type of tobacco utilizes it in all its brands. Consolidated is using this reconstituted tobacco leaf in its lower priced brands. Bayuk also has been licensed to use the process. In this process cigar leaves are pulverized, then rolled into thin sheets which are then cut into strips the length of the cigar. By this method all parts of the tobacco leaf are used including stems, scrap and waste. Savings in material and labor costs are substantial and are estimated to average $4 per 1000 cigars.

Sales promotion policies in the cigar industry are somewhat different than those in merchandising cigarettes. Drug Stores are the chief outlets dispensing 23.5 per cent of the total bars and grills sell 21.5 per cent, independent food stores 18 per cent, restaurants 9.5 per cent, chain groceries only 4.2 per cent and vending machines just one per cent.

About six of the largest companies accounted for 80 per cent of total sales with Consolidated Cigar having accounted for about 20 per cent of the 1957 total and General Cigar, American Tobacco and Bayuk Cigar next in line. John H. Swisher and Sons was in fifth place with DWG Cigar rounding out the first six.

Both sales and earnings of **Consolidated Cigar** were higher in the first nine months with sales up approximately $3 million over 1956 and net income at $3.39, an increase of 37 cents. For the year, sales likely exceeded $75 million, a new high, and earnings probably equalled $4.10 a share. The outlook is for further sales and earnings increases for 1958.

General Cigar likely made the best showing in the cigar industry in 1957 with both sales and earnings receiving the benefits from the use of homogenized tobacco leaf. Nine month sales amounted to $39 million, up about $9 million with a new record of $55 million probably attained for the full year. Earnings were $5.50 or more for the year. The company should report even more favorable results this year through more extensive use of the homogenizing process.

Bayuk Cigars earnings results for 1957 will be only slightly better than the previous year. Sales in fact, may have been slightly lower than the $41 million of 1956. Net income, however, is estimated at $1.75 a share against $1.70 a year earlier. Profit margins for 1958 should benefit from the use of lower cost homogenized leaf.

The DWG Cigar annual report should show sales of a shade better than the $19.5 million of 1956. Earnings are expected to equal $2.10 a share versus $1.92. This company will benefit by the new leaf process and an overall improvement is expected for 1958.

Of the three large producers of snuff, **U.S. Tobacco** industry leader and **American Snuff** should make the best showing with earnings above 1956. **George W. Helme's** results will also reveal improvement over 1956. Helme is currently attempting to diversify its operations because of the lack of further growth in the snuff industry.

U.S. Tobacco is already diversified within the industry and **American Snuff** also manufactures chewing tobacco. It is possible that diversification moves in the industry may broaden in the future. In the meantime, volume and profits for snuff companies should be well maintained into 1958.

All in all, the 1958 outlook for the tobacco industry is bright in all phases, cigarettes, cigars and snuff. —END

Japan Reaches Out

(*Continued from page* 575)

day it has dropped to 3%. Last summer, Japan followed Britain and other countries in some easing of restrictions on trade with the Chinese, but little effect has yet been noted. The realization is dawning that rapidly industrializing Red China is no longer a great potential market for Japan. Rather, it is a very real competitor with strong trading ties already established in Southeast Asia and plans for penetration of the Middle East.

Ever since Soviet boss Nikita Khrushchev came up with his Siberian development program, the Japanese have seen for themselves the possibility of a major role. They argue that Siberia is closer to Japan than to Moscow, and that, besides excess manpower, they have the prior experience gained in colonizing Manchuria and Korea. The logic may be good, but so far it is just another Japanese pipedream. After lengthy negotiations, a trade pact was signed with the Russians in December. It made no mention of Siberia but established the intention to trade lumber and minerals against Japanese ships and machinery. The details remain to be worked out, but already there are protests of Soviet business methods. Up to now, commerce between the two countries has been virtually non-existent.

Japan is currently making every effort to expand and diversify exports and to develop new overseas sources of raw materials. Japaneses businessmen are putting up a $55 million wood pulp in Alaska to supply rayon staple for the Japanese textile industry. Investments have been made in production of iron ore in Portuguese Goa, tin in Thailand, and copper in the Philippines. Japan has its eye on Middle East oil. Current negotiations with Saudi Arabia and Kuwait are aimed at offshore oil rights in the Persian Gulf. There is also talk of creating a joint Japanese-Iranian firm for oil exploration.

Following the U.S. lead, Japan is offering technical assistance as a means of trade promotion. India has been offered help in building a Bombay subway, a railway coach factory, and a wire mill. Efforts to increase trade with Egypt have reportedly included proposals for Japanese technical guidance when and if the Aswan High Dam is built. Prospects for trade expansion in Latin America are quite god. In Brazil, for example, Japan is supplying much of the machinery and equipment for a large steel mill, plus 300 engineers and technicians. Japanese business interests have provided technical aid and machinery for textile mills in Argentina, El Salvador, and Brazil. They have built a sugar refinery in Bolivia and are now planning to mine iron ore in Chile.

Looking Ahead

Japan is now in a position to begin the difficult task of rebuilding its international reserves. The year 1958 may see further belt-tightening for the Japanese economy. Fortunately, the country is far stronger and more diversified today than ever before. The great surge of investment in the past five years has raised industrial productivity. In a period of global readjustment, Japan will be a keen competitor. Furthermore, Japan's terms of trade will benefit from the declining raw material prices abroad.

The world, and even the Japanese themselves, had come to regard the economic potential of the country as modest because of the scarcity of natural resources. Japan's rapidly growing population was considered another liability. But the great industrial expansion of recent years has amply demonstrated the value of a large skilled labor force. It has also provided that a nation largely dependent on imports can attain a rising standard of living through hard work and intelligent planning. —END

Oxygen — 5 Leading Companies in the Industry

(*Continued from page* 581)

of Detroit is believed to be the first American company to use such converters and is reporting top-notch results. But most important to the oxygen industry, this process requires some 2000 cubic feet of oxygen for every ton of steel. Here indeed is a great new market for not only the oxygen gas, but also for on-location generating equipment.

The chemical industry is also providing sharply rising opportunities for oxygen and other industrial gases. The industry's use of oxygen and nitrogen is already very substantial and developments in cryogenics are expected to have far reaching application. Industrial gases also play an important role in the petroleum industry. Refiners' hydrogen requirements are sizable, particularly for upgraded fuels. Also, natural gas enrichment is becoming more prevalent. And the oxygen producers' experience in making and hauling LOX (liquid oxygen), which is so important in the missile program, may well be directly applicable in new techniques for shipping natural gas. In many areas of South America for example, particularly in Venezuela, vast supplies of natural gas are going unused at the present time, which fuel-poor European nations might well purchase with gusto if a practical method of shipment could be found.

As for the future of the industry, it can only be concluded that it is glowing! Aside from the skyrocketing missile program and its heavy consumption of oxygen, the steel and chemical industries seem certain to raise their requirements for this gas to higher levels in coming years. Then too, the designing and construction of on-location generating equipment will surely open-up a multitude of new applications for oxygen. Thus cash registers can well be expected to tinkle loudly. Followers of the industrial gas industry project future growth of compressed gas consumption at a minimum of 8% yearly with oxygen to rise some 10% per annum. All in all, oxygen seems here to stay!

Union Carbide Corporation—This company holds down the position of second largest in the chemical group, with widely diversified products and markets. Linde Air Products, a division of Union Carbide, is the largest manufacturer of oxygen in the nation, its business having been built up sharply in recent years. Union Carbide's emphasis on oxygen production is clearly pointed-up by its recent announcement that it would soon place on stream additional oxygen producing facilities at Ashtabula, Ohio and Fontana, California. The new Ashtabula unit is expected to supply an additional 115 million cubic feet of oxygen monthly for industrial use in the Alleghany steel area. The Fontana expansion will provide some 35 million more cubic feet of oxygen each month for the West Coast market.

Union Carbide, a blue chip industrial, reported that sales for the first three quarters of 1957 had advanced 7.6% above year-earlier levels, but that higher research expenses, strike losses from the Linde division strike early in 1957 and a continuation of the cost-price squeeze had resulted in lower earnings during the year. Per share results for the first nine months of 1957 were equal to $3.44, compared with $3.54 in the like period a year earlier.

This giant in the chemical industry sells to all branches of the industry. Its size is best pointed up by the fact that it has some 82,000 employees in the United States and Canada, and more than 400 plants, mills, factories, mines and laboratories. A strong research and plant expansion program lends much glamor to this company for the longer term. Dividends have been paid since the company's incorporation in 1917, and for the five year period ending 1956 have averaged 69% of earnings.

National Cylinder Gas Co. — The third largest manufacturer of industrial gases in the United States, National Cylinder Gas has strengthened its position markedly in recent years through a sound program of diversification. The company now makes a wide line of equipment related to the use of industrial gases, and is active in industrial construction through its Girdler Division. This company designs and builds petroleum, gas and chemical process plants.

National Cylinder Gas reported rising sales in the first nine months of 1957, more than 11% ahead of the same period a year earlier, with net profits rising to $3.42 per share compared with $2.91 in 1956. The National Cylinder Gas Division, which has 5 oxygen plants, reported the largest gain in volume. The management of this company, which has paid dividends continuously since 1935, is well regarded, and finances are strong.

Air Reduction Co. — The fundamentals of the Air Reduction Company have been improving in recent years as its diversification program has been taking effect. Particular progress has been made in building-up the liquid oxygen operation. This company which not only produces a wide line of industrial gases, but also manufactures related apparatus accounts for some 30% of the total domestic output of oxygen and acetylene.

Sales during the first three quarterly periods of 1957 rose almost 14% above year earlier levels with earnings advancing slightly to $3.28 per share from

$3.21 a share in 1956. Profit margins narrowed slightly on the heels of higher manufacturing and distributing costs and increased overhead. This company, with a sound balance sheet, has paid dividends since 1918.

General Dynamics Corporation—This giant of American industry needs little introduction to today's investor, who is no doubt well acquainted with General Dynamics' strong reputation in the atomic energy and missile programs. The Nautilus, the world's first atomic submarine, is a product of the company's Electric Boat Division.

General Dynamics, which has in the past few years followed a strong diversification program, acquired the Liquid Carbonic Corporation on Sept. 30, 1957, by an exchange of stock. For the year ended September 30, 1957, Liquid Carbonic, a top-flight producer of industrial gases, had reported sales of more than $35 million and net income of $3.5 million.

Air Products Co.—This rapidly growing company, whose sales rose from some $6 million in 1953 to more than $30 million for 1957, has become a major factor in the oxygen industry. The company has been a pioneer in the field of cryogenics, the highly successful technical development of low temperature equipment for separating air into its constituent gases. Air Products has found a special nitche in the oxygen industry by designing and building or leasing on-location oxygen generating facilities, which by-passes the burdensome transportation problem.

Earnings for 1957 are estimated to have reached about $1.70 compared with $1.65 a year earlier. Moderate dividends have been paid since 1955. —END

Appraising Year End Corporate Statements

(*Continued from page* 579)

expand output to meet the needs of an expanding population.

Plus as well as minus factors should be weighed in judging the course ahead for individual companies.

Despite much evidence to the contrary, there are those who insist that the current recession is, in essence, an inventory adjustment following a period in which production exceeded demand.

Such a view appears to be that of United States Steel, Bethlehem and National, who with others, increased the capacity of the steel industry in 1957 to 140,742,570 tons, a new high and a rise of 7,300,000 tons for the twelve months.

Moreover, U.S. Steel is still expanding. It has authorized new projects on its books which will require $700,000,000 to complete.

Currently lower operations will chip earnings of the majority of steel companies in the final 1957 quarter and early 1958 months. The bigger companies, however, may show better profit margins than the smaller ones. Those with newly-constructed plants can produce ingots and castings at unit costs substantially below those for plants built five years or longer ago. They will be able to keep costs down by concentrating production in low cost mills.

General Motors, Ford and Chrysler, like the steels, face smaller sales and profits during the recession days still ahead.

At the start of the year, dealer inventories of new cars totaled 637,720 units, including 65,000 holdovers from the 1957 model year. This was the equivalent of about 46 days' supply at the current rate of sales.

Some say retail auto sales during the next four months will not exceed an annual rate of 4,800,000 units, which would be substantially below last year's actual sale sof 5,900,000.

However, if a strike in the auto industry is on the way, any cars stockpiled now in excess of consumer demand will be regarded as "insurance" against a labor shutdown, should it come.

What happens in autos and steels is stressed because trends in these two key lines frequently affect as much as one-third of the entire economy.

In addition to the auto and steel companies, lower earnings appear probable in the period ahead for copper producers. Anaconda, Kennecott and American Smelting all have cut back operations, with the hope that the red metal may be stabilized in price somewhere in the vicinity of 25 cents a pound.

Anaconda and Kennecott, both low-cost producers, will be able to make money at such a price, but until copper supplies in user's hands have been whittled down

from present levels, sales and earnings will be below 1957.

Stability in Consumer Goods

There are, however, groups of companies in the American business skein whose sales and earnings should continue at high levels despite the recession.

Sales in many consumer lines, including foods and some soft goods, remain high.

Interim reports show that chains like Grand Union and Food Fair, which are continuing to add new supermarket outlets, should maintain sales and earnings at or close to record figures posted in 1957.

In the department store field, those retailing staple merchandise like Macy's, Gimbels and Federated Stores should do better than those emphasizing luxury or premium-priced lines.

In the beverage field, Canada Dry Ginger Ale, which set records in both sales and earnings in 1957, is planning new promotional expenditures to boost sales throughout the world this year.

And companies in the aircraft and missiles field are becoming beneficiaries of new orders which over the long-term have a high potential.

Douglas Aircraft has been given a production contract for the Thor missile. General Dynamics has one contract for the Atlas. Lockheed is said to be in line for production contracts, coming any day, for the Navy's Polaris.

Prospects for American Airlines, United, Eastern, Northwest and Trans World, can improve if the lines get an upward rate adjustment this year. Last year, a plea for a rate increase was denied by the CAB. However, then the Administration was more interested in holding down inflation than in granting an airline rate increase to offset higher operating costs.

Paper companies, like Union Bag, West Virginia Pulp & Paper, and others in the field were hit by the inventory-adjustment recession last year while they were in the midst of expansion programs. Because the recession began earlier in paper than in many other lines, recovery may come sooner if business looks up.

In the 1958 outlook for individual companies, keep in mind that this will be a year in which another round of wage increases will be asked in many basic lines.

If wage rises should be accompanied by new broadened Federal spending for missiles and other defense needs, outlays for roads, and other projects, a new inflationary wage-price rise could be in the making.

Dollar volume of sales might be enhanced by such an inflation, but from the standpoint of purchasing power, the dollar wouldn't buy less.

The Higher Cost Problem

A 1958 wage-price spiral would add to the current corporation problem of keeping costs under control.

There were companies, in 1957, however, that did an outstanding job in battling higher costs.

Firestone Tire & Rubber, to take an example, maintained a fairly stable profit margin and anticipates good business in 1958. Sales for 1957 totaled $1,158,844,304, contrasted with $1,115,179,783 a year earlier. The company carried $61,692,152 or $7.32 a share down into net, compared with $60,538,-848 or $7.43 a share in 1956. The 1957 profit margin was 5.3 per cent, only a shade under the 5.4 per cent for the preceding year.

Firestone's sales prospects should be enhanced by an extraordinary strong demand for replacement tires this year, and tires are a big part of the company's business. With the uncertainty about the industrial outlook, many a car owner will elect to buy a set of new tires for his present car, rather than load himself with three years' of installment payments on a new auto. Around 80 per cent of the nation's workers ride to their jobs in automobiles, and for them a car is an essential. Those employed in areas where workers have already been effected by lay-offs or a shorter work week won't be too unhappy about driving their present cars another year.

Company Reports

International Business Machines Corp. — Biggest of the office equipment makers, International Business Machines pushed its gross income from sales and earnings in the United States to $1,000,-431,597 last year, compared with $734,339,780 in 1956. Net income at $89,291,589 was equal to $7.73 a share, contrasted with $68,784,-510 or $6.55 in 1956. The 1957 net income figure included $3,927,000 the company received from outright sale to customers of punched card accounting and data processing machines previously leased to them.

The bulk of IBM's revenues, however, continue to flow in from rentals and servicing of machines. Its large-scale computers are used by both commercial and scientific or engineering calculating staffs, and its current sales stem from large backlogs of both civilian and military orders. A sharply increased demand for computers may be expected as missile programs are quickened.

The 1957 report pointed out that during 1956, the method of calculating depreciation for rental machines produced since January 1, 1956 was changed from the straight line to the sum of the years-digits method. This change resulted in a reduction in net income of $11,438,518 for 1957, and a drop of $4,264,688 in the 1956 net income figure.

Douglas Aircraft Co. — A leading plane producer, Douglas Aircraft's operations were seriously affected by the Defense Department's stretch-outs and cutbacks in military orders. The company's sales in 1957 reached a new peak of $1,091,366,415, a rise of 1.7 per cent over the $1,074,681,557 for 1956, the previous high. Net profits at $30,665,000 or $8.28 a share in 1957 compared with $33,202,000 or $8.96 a share in 1956. The company in January halved the extra dividend of 50 cents a share it had been paying every quarter for nearly three years, although it is maintaining the regular quarterly dividend of 50 cents. The cut was dictated by cutbacks in military orders, need to conserve funds to meet increased costs in developing the new DC-8, expected heavy write-offs on the DC-8, anticipation of lower deliveries in 1958 of commercial planes, and prospect of a further decline in earnings.

The company's backlog of orders stands at around $1,803,620,-000, of which 49 per cent is military and 51 per cent commercial. The backlog a year earlier was $2,232,000,000. The company has firm orders for 134 of its DC-8s.

International Harvester Co. — The nation's largest producer of farm machinery, International Harvester's sales in 1957 aggregate

$1,171,388,639, a decline of 6.4 per cent under the $1,252,079,066 for 1956. The dip was attributed in large part to a decline in sales of construction equipment and service parts, which at $154,053,-000 ran 26 per cent below 1956.

Sales of farm tractors, on the other hand, showed a rise counter to the general trend, and at $195,-662,000 were 8.8 per cent above 1956. Farm implement sales, too, exceeded a year ago. Continued good farm equipment sales are seen as a result of increases in the prices of farm commodities, good moisture conditions, and the trend toward larger farms using more mechanized farming tools.

Net income for 1957 at $45,-620,283, or $2.88 a share, was 8.1 per cent below the $49,618,709 or $3.16 for 1956.

While a stable demand for farm implements is anticipated, over-all sales comparable to those of last year will depend on the amount of highway construction, home building and airport work that comes along to improve demand for construction equipment.

American Machine & Foundry Co. —This company, a leader in the field of automatic specialized machines, estimates that its net profits for 1957 totaled around $11,800,000, compared with $8,-975,676 in 1956. This would put per share earnings for 1957 at $3.50, against $3.03 in 1956. Sales in 1957 were over $260,000,000, compared with $198,057,542 for 1956.

A substantial rise in profits in the three final 1957 months came from an increase in revenues from automatic bowling alley pinspotters which the company leases on a usage basis. Production of pinspotters in 1957 was 12,000, a rise of 16 per cent over the 10,000 for 1956. The company now has 30,000 pinspotters installed and leased. The production target for 1958, however, is 7,000 pinspotter units. Sales are influenced by the tightness of money available to persons desiring to open bowling alleys. Demand for bowling equipment and the company's other products – tobacco machinery and dispensing equipment for restaurants – is slower now that it was in the first nine months of last year.

This is Part I of an analysis of the 1957 annual reports of industrial companies. Part II, covering many more, will appear in the next issue. —END

General Mills ... from Food Stuffs to Automation

(Continued from page 577)

a highly specialized nature for the atomic energy program. Other products include automation equipment, aircraft instruments, strato-balloons and related instruments and services, special fire-control and armament systems for the Air Force and Navy plus other devices and systems that come under tight security wraps. While this division contributed only $20 million to total sales last year, brighter prospects for the future can be seen in General Mills' plans to expand the Mechanical Division in the near future.

Exploring the Atom

The vast potential for sales and profit which the domestic and foreign boom in nuclear power stations will offer has not been overlooked in General Mills' plans for keeping products as well as ideas abreast of the times. Only a few months ago General Mills announced the formation of a Nuclear Equipment Department as a part of the company's Mechanical Division. This announcement was the culmination of nearly a decade of experience in designing and building remote-control manipulators for "hot cell" work.

One of General Mills' leading contributions to the U.S. nuclear industry is the company's celebrated "Mechanical Arm" manipulator. This is a mobile device familiar to all who have seen films of mechanical arms and hands working in a radioactive atmosphere at the bidding of a human operator who controls the mechanical arm from a shielded location. At present the Nuclear Equipment Department is working with many of the power companies now building or planning nuclear generating plants. In the next few years such plants are expected to develop into a major market for the Mechanical Arm and associated nuclear handling equipment. Plans also call for adding other nuclear products in the near future.

Another potentially lucrative market will unfold for General Mills when nuclear-powered aircraft become a reality. Inasmuch as the maintenance of these aircraft will depend on manipulators controlled from remote locations, the company has prepared for the nuclear-powered aircraft by designing mobile, aircraft-maintenance units. Moreover, the enticing lure of vast foreign markets has prompted General Mills to appoint a German firm to handle sales of General Mills nuclear products in Europe. Another German firm, Schering A.G. of Berlin, has been named exclusive distributor of General Mills' Versamid polyamide resins in Germany and Austria.

Chemical Inroads

General Mills' Chemical Division is not taking a back seat in the friendly intra-company competition for the U.S. consumer's dollar. While the company's chemical products are not as glamorous nor as fraught with intimations of an interplanetary future as those of the Mechanical Division, they constitute a growing source of revenue. The Chemical Division produces a line of organic chemicals for industry which includes methyl esters, fatty nitrogen compounds and vegetable sterols. These products find a wide range of uses in soaps, detergents, cosmetics, textile specialties, ore flotation, alkyd resins, surface active agents, oil additives and chemical intermediates. The Special Commodities Division, moreover, produces and sells commercial vitamins and vitamin concentrates, wheat starches and proteins, wheat germ oil, monosodium glutamate, glutamic acid and guar gum.

The other divisions—Feed and Soybeans—round out the General Mills organizational structure and add considerable flesh and sinew to the company's sales and profits. These two divisions in 1957 accounted for $99 million in sales, a modest decline from the high of more than $109 million in 1953 when feed sales soared to a healthy $91 million. But at that time soybean sales accounted for only $18.5 million of the total, as against $26 million last year. Furthermore, the growing consumption of soybeans here and abroad and their widespread use in industry offer considerable assurance that sales of soybean products may set a successive

series of records in the years to come. The Soybean Division has set its sights on increasing production and sales of soybean oils for use in foods, paints and chemical products. The record U.S. cattle population on farms today may help General Mills' Feed Division attain or surpass the previous high sales of $91 million. A good portion of this gain, however, may be accounted for by the Soybean Division's own soybean meal, an increasingly common feed on American farms.

The Promise of the Future

These are all substantial and wisely diversified blocks upon which to erect a prosperous future. Furthermore, basic economic forces are working in favor of most of General Mills' products. The international boom in nuclear power facilities and the growing demand for missiles are no small consolation to the Mechanical Division. Vitamin and feed sales are rising in conjunction with the increase in U.S. human and cattle population. Similarly, a larger population will help offset the steady decline in per capita consumption of flour. At the same time the American public, particularly that steadily increasing portion under 15 years of age, will use greater quantities of "convenience foods" made from cereal grains, including ready-to-eat cereals, cake mixes, prepared biscuit mixes and refrigerated mixes.

One important factor in favor of food sales is the likelihood that the U.S. consumer will spend more on food, now that the demand for durable goods has been satisfied. Expansion of General Mills' package food line, then, will be an important growth activity in the years ahead. New products devised by research or acquired from other sources will be added to existing ones. In addition, the company anticipates a steady growth in the volume of present products.

Population increases and rising consumption of meat, poultry, eggs and dairy products will provide a healthy climate for increasing General Mills' formula feed sales. Mass production techniques for raising broilers as well as other poultry and animals have stimulated the use of standardized feeds. The company intends to increase its share of the feed market by improving its service to the farmer and by increasing its advertising and promotion. Future investments in smaller, strategically located plants also will help lower costs and improve service.

Strong—Sound, Financial Position

Furthermore, General Mills is as strong financially as it is productwise. One vital factor which is particularly favorable to the company in these days of rising wages is the fact that most of the activities in which General Mills is engaged have low labor costs in relation to sales. Although wage scales were at high levels last year, total labor costs took only 14.2c of the average sales dollar.

General Mills' capital structure is eminently sound while its earnings and dividends record afford the company's stock a good investment grade status. The common stock is a high grade issue with a total equity value of almost $114 million, including reinvested earnings of $74.8 million. The common stockholder's equity now represents 84% of net worth.

The growth aspects of the company are enhanced by General Mills' policy of diversifying and expanding with internal funds derived from reinvested earnings. To date, reinvested funds have averaged 37% of net earnings. However, these needs have not interfered with the compelling policy of consistent regular common dividends. These have averaged 57% of available earnings in the last five years.

Earnings for the fiscal year ending May 31, 1958 are expected to be above the $4.88 per common share earned the previous year. Thus, there is little question of the company's ability to maintain its regular quarterly dividend of $0.75. Moreover, it is to be noted that General Mills has never reduced the regular dividend once a new rate has been established.

END

For Profit and Income

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their final bottoms have yet been seen. A partial list of examples includes Amerada, American Viscose, Borg-Warner, Chrysler, General Motors, Halliburton, Continental Oil, Gulf Oil, Kaiser Aluminum, International Nickel and Outboard Marine.

END

Federal Road Building Program

(*Continued from page* 569)

and Florida the net effect was enough to cancel out total federal allotments for the year.

Money—Money—Money

The drop in state and local revenues is particularly depressing in light of the prop increased spending was expected to provide for the economy in 1958. It means more attempts at deficit financing for these governmental units on top of the $52.5 billion they already owe, at a time when the market for tax exempt securities is rather sticky.

What is most disturbing to the states and localities is the diversion of the funds arising from the program. Easier access to major cities carries the threat of traffic jams, and is forcing cities into street-widening projects, expansion of parking facilities, and complete revision of traffic control systems. The cost of these changes is not included in either the network program or the 50-50 aid program, throwing the onus completely on the local units. And when cities take a look at their existing financial obligations: the $14 billion dollars owed for public schools, the $10 billion debt already on the books for streets and the $3.5 billion owed for sewage disposal systems, many a municipality is in a desperate plight.

Toll Roads Offer No Solution

In light of these problems, state officials frequently cast an envious eye at the toll roads, but investigation of the possibilities usually leads to quick disillusionment. For one thing a number of existing toll roads are experiencing unexpected difficulties — and they already span the prime routes that can be expected to garner the maximum traffic. Recognition of troubles for the toll roads has seeped into securities markets, depressing some of the major issues (see accompanying table) and creating an unattractive framework for floating new bonds, even if an economically feasible route could be worked out.

Toll roads have the obvious advantage of being self-supporting, but many are not working out that way for several reasons. Basically, the original section of the Pennsylvania Turnpike and

Data on Toll Road Revenue Bonds

Name of Issue	Amt. Outstanding (million $)	Estimated 1957 Interest Coverage (No. of Times)	1957 Interest Requirements (Million $)	1956-1958 Price Range* High	Low	Last
FLORIDA TURNPIKE 3¼s 1995[1]	71.8	1.15	2.3	96	79	87
ILLINOIS TOLL ROAD 3¾s 1995	377.0	a	a	101½	68	80
INDIANA TOLL ROAD 3½s 1994	280.0	0.70	9.8	103¾	76	89½
KANSAS TURNPIKE 3⅜s 1994	156.2	0.55	4.9	94¾	67	72
KENTUCKY TURNPIKE 3.40% 1994	38.5	1.05	1.3	100¼	78†	90½
MAINE TURNPIKE 4s 1989	78.6	1.00	3.1	103½	80½	88½
MASS. TURNPIKE 3.30s 1994[2]	239.0	[2]	7.9	102	80	91½
NEW JERSEY TURNPIKE 3¼s 1995	220.0[6]	1.90	13.6	106½	90	101
OHIO TURNPIKE 3¼s 1992	330.0	1.35	10.9	102¾	81†	91¾
PENN. EAST-WEST TNPKE. 3¼s 1988[3]	77.6	4.50	4.8	106¾	98	102
PENN. TNPKE. NO.-SOUTH EXT. 3.10s 1993[4]	298.0	0.40[7]	9.1	105½	78	88
RICHMOND-PETERSBURG (VA.) 3.45s 1995	69.0	a	a	101	77½	88
TEXAS TURNPIKE 2⅞s 1995[5]	43.5[8]	[5]	1.7	96	70	81
WEST VIRGINIA TURNPIKE 3¾s 1989	96.0[9]	0.60	5.1	76	43½	51

1—Opened Jan. 26, 1957. 2—Opened May 16, 1957. 3—East West toll road from N. J. to Ohio. 4—North-South toll road from Scranton to Phila. 5—Opened Aug. 27, 1957. 6—Total debt $449.0 mil. but these bonds have a prior lien. 7—Once the bonds on the East-West Pa. turnpike are retired, earnings from that pike accrue to the North-South turnpike. Retirement expected in approx. 9 years. 8—Total debt $58.5 mil. 9—Total debt $133.0 mil. *—High price was reached in 1956, low in late 1957, except as noted. †—Low reached in 1956. (a)—Road not yet open.

From data compiled by Wood, Struthers & Co.

the newer Jersey Turnpike—New York State Thruway and Ohio Turnpike – are doing well, – but even these are not coming up to expectations in meeting the financial requirements. Passenger car travel is excellent, and occasionally better than anticipated, but truck traffic, the bread and butter business, is far below estimates and shows no signs of increasing.

Reason is that the planners had assumed that unencumbered travel at high speed would be a blessing and a cost saver for the hauler. It hasn't worked out that way. Drivers are generally paid per trip, not per hour so no savings can be effected here. Moreover the truckers found that gasoline consumption and wear and tear on tires at consistently high speeds virtually offset shorter running time advantages. But most importantly, the truckers found that with much passenger vehicle traffic channeled into the toll roads, traffic conditions on the old highways eased sufficiently to make truck travel economical and more efficient. Under these conditions the toll rates are an unnecessary expense, which transport operators are avoiding.

At the same time, however, the trucks are continuing their wear and tear on the older roads, keeping maintenance costs, which must be borne by the states alone, at high levels.

Stretch Out Probable

In view of these factors, future toll road construction is extremely doubtful. Projects in process will be completed in the hope of reimbursement from the federal government, but the recent announcement that the West Virginia Turnpike Authority may have to default on its interest payments sounds the death knell for additional projects on non-prime routes.

What then is the status of the full $100 billion program? As stated the 41,000 mile (and perhaps more) interstate net seems assured of completion. The other segments however have a rockier road to travel. Cognizant of the difficulties either encountered or expected, a stretchout to 25 years has been proposed to lighten the yearly financing burden and to provide a longer time for construction funds to be built up from tax revenues. In reality, however, such a postponment might as well be indefinite. Some states have passed laws preventing diversion of highway funds into other areas, but usually they lack teeth, so there is not too much hope for a real reversal in the trend.

Thus the ultimate impact on the economy is very much in doubt. If construction plies along approximately on schedule it will undoubtedly inject much new money into the business stream. But it may at the same time so tax the financial resources of the states and municipalities that other public works projects will suffer. If it is stretched out, it will probably lose its identity as a cohesive program. END

The Dividend Outlook For 1958

(*Continued from page* 566)

excellent chance for stable payment rates in the period ahead regardless of overall economic conditions. A few, such as **National Biscuit, Procter & Gamble** and **American Home Products** have truly outstanding records and offer the additional attraction of reasonable growth over time.

American Home Products, for instance, a very successful producer of ethical and proprietary drugs has repeatedly demonstrated its ability to develop and successfully market new products. Moreover, it has managed to acquire several smaller companies without taxing or impairing its excellent financial structure. Dividends paid each year since 1919 have averaged a high 67% of available earnings in recent years. Currently, disbursements are made monthly.

Most industrial companies cannot present such a stable earnings/dividends record however. Nevertheless the list of companies with stable prospects in 1958 need not be confined to those linked closely to the consumer's dollar. **General Electric,** despite its traditionally narrow dividend coverage has repeatedly worked near miracles with a low cash position, and **Westinghouse,** rebounding strongly from adversity, seems on the way to permanent recovery.

Those Dwindling Profit Margins

For many other industrial companies, however, the declining profit margin trend which was accelerated all through 1957 may reach critical proportions in 1958. Some secondary steel producers such as **Pittsburgh Steel,** have al-

ready announced that dividends will be omitted in the first quarter of 1958, and other high cost producers are treading in deep water.

In general, the larger, more efficient companies will be better able to maintain margins, but liquidity considerations are likely to become more important to management in the competitive period ahead. Thus, even where earnings warrant high dividends, there may be a number of shaded payments in 1958. In fact, last week **Douglas Aircraft**, after announcing record earnings, cut its 50¢ extra to 25¢ largely because of cash difficulties resulting from the stretchout of some government progress payments.

Companies With Good Dividend Prospects

Despite the generally depressed state of business activity, several industries continue to perform exceedingly well, and move into 1958 with sufficient momentum to justify the hope for better dividend treatment during the year. Naturally, much will depend on how deep the recession actually goes, since a serious slide could induce caution in even the best situated industries. But barring any unforeseen catastrophes, selected companies could fare very well.

Foremost among the better situated groups are the tobacco companies (see 'Which Tobacco Will Lead In 1958' on page 582 of this issue). **Reynolds (R. J.)**, with steadily widening covering for its $3.60 annual payment and **Lorillard (P.)** with its excellent 1957 record and an improved trade position could increase disbursements this year.

Among the food chains, several companies have been scoring consistently good year-to-year gains and may pass some of the improvement along to stockholders. **Grand Union**, an aggressively expanding corporation has kept cash payout low, preferring to supplement payments with stock dividends. Nevertheless the cash rate has been frequently increased as earnings climbed, indicating that higher payment may be ahead. In the first nine months of 1957, Grand Union earnings advanced almost 17.5% to $1.87 per share from $1.69 last year on a 13.7% increase in sales. The better profit margin showing is expected to continue into 1958.

National Tea also has been widening its dividend coverage from year-to-year, and **Safeway Stores**, justly proud of its record $2 billion in sales for 1957, may also give stockholders cheering news in 1958.

In the drug group, the consistently high level of performance by most companies makes for an attractive dividend picture in the year ahead. **Warner-Lambert** in particular, benefiting from both the rising demand for ethical drugs and the stable consumption of toiletries, cosmetics and proprietary drugs, has been widening its profit margins consistently. In the nine months ended September 1957, a 16.5% sales increase was translated into a 30% rise in profits, bringing the nine month total to $3.78 per share from $3.33 a year ago. At the present rate of growth, earnings should approach $6.00 per share in 1958, making a dividend hike to $3.00 from the present $2.50 rate, a distinct possibility.

In a special category, **Brunswick-Balke-Collender** seems in line for better dividends. Since deficit operations in the first quarter of 1956, earnings have bounded steadily upward and should reach $4.75 per share for the full year 1957, compared with $3.08 in 1956, $1.26 in 1955 and 55¢ in 1954. Output of bowling alley and school equipment has scored sharp gains and with the outlook still good, the $1.00 dividend rate, which is well below the average 50% payout the company has maintained in the past, may be upped. This is however a speculative situation.

Listed in the accompanying table are ten stocks with relatively poor prospects for 1958. It should be emphasized however, that they are merely representative of a host of others in the same boat.

In the most tenuous category are the building materials and supply companies, such as **Certain-teed Products** and **American Radiator & Standard Sanitary**. Business is not good for companies of this type, despite the steady tone for the construction market as a whole. Forecasts for the group must be hedged, however, against the possibility of an upturn in new housing starts. Without it, both companies, which have had serious profit margin troubles in the past, must be considered doubtful dividend candidates.

Secondary producers of metals products will also find the sledding rough in the year ahead. As mentioned Pittsburgh Steel has omitted its dividend, and others, such as Detroit Steel are feeling severe strains. **Bohn Aluminum & Brass**, despite attempts to unload inefficient operations will cover its already reduced dividend by a very narrow margin, enhancing the possibility of a further cut. Much the same is true of **Scovill Mfg.**, another important producer of copper and brass products. After a relatively satisfactory first quarter in 1957, sales and earnings fell off sharply in the balance of the year making it doubtful that the $2.00 regular dividend will be covered. Cash position is fair, but not really adequate to warrant the continuance of 50¢ quarterly.

In general, investors seeking dividend stability will have to turn to the traditionally stable performers in the food, utility and retail groups. Nevertheless, as pointed out here, selected companies in many industries should continue to perform well as long as the economy maintains some semblance of remaining on even keel.

END

As I See It!

(*Continued from page* 557)

that with the uncertainty and conditions prevailing in this country there should be a flow of capital where it can secure a much greater return than it can in the United States.

However, in view of uncertain financial conditions in the various countries, great care must be exercised in making commitments. It is well to bear in mind that substantial American funds were lost in Canadian issues. END

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